The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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1949 MID-YEAR SPECIAL *Part 3*

Re-Appraisal of Security Values

Earnings and Dividend Forecasts

OUTLOOK FOR ALL LEADING COMPANIES

—From BUSINESS and INVESTMENT Standpoints

** In This Issue **

BUILDING SHARES · MOTORS

MOTOR ACCESSORIES

ELECTRICAL AND FARM EQUIPMENTS

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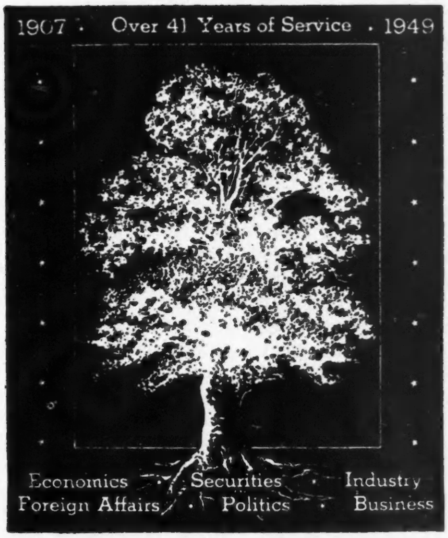
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

FARM PROSPERITY . . . An important indication of the current financial strength of the nation's farmers as a whole and the prudence with which they have handled their record incomes of recent years is found in the trend of farm mortgage debt in the past war and postwar period. The current position takes on added significance since it is in marked contrast with the trend during and after the first world war period. It is also relevant in connection with our official farm policy as a whole.

Farm mortgage debt dropped from prewar \$6.5 billion to \$4.6 billion at the end of 1945, a drop of 29% to a figure the lowest in 33 years. In the subsequent three years, the trend was upward but the gain has only been \$426 million or 9.1%. Thus in the last war and postwar period, from 1940 through 1948, farm mortgage debt showed a net reduction of \$1.47 billion, or 22%. By contrast, during and after the first world war, there was an increase of fully 114%, or by \$5.7 billion.

These figures are gratifying indeed, for they show that despite unprecedented prosperity, farmers have been prudent and conservative. And a financially strong agriculture is of the utmost significance to the economy since agricultural distress has played a major role in past depressions. But this doesn't mean that we have to go to excessive lengths to safeguard agricultural well-being as we seem bent to do. At this writing, farm policy is again facing a showdown and politically the cards seem unfortunately stacked against any sensible approach to the problem.

The Senate must soon decide whether to support or discard the Aiken bill of flexible farm price supports scheduled to go into effect on January 1 next. The House threw out the Brannan farm subsidy program, much to everybody's relief, and banned a "trial run" of this fantastic plan, but it quickly followed this sane decision by voting to replace the flexible support program in favor of another year of inflexible supports based on 90% of parity, the old high wartime rates when spurring production to the utmost was the primary goal.

We would plead with the Senate to set aside political considerations and decide the issue on its economic merits but the hope that it may do so is slim. Still on economic merits alone, there is no call to perpetuate the old, wasteful, discriminating system. Farm income even under flexible supports will not collapse; it will remain quite high. And farmers are far from broke; the official estimate is that they hold over \$20 billion of liquid assets, a record far exceeding anything previous. Their mortgage debt, as outlined before, is conservative and hardly burdensome. From an economic viewpoint, thus, there is no need for further waste of taxpayer's money to keep his food basket high (adding injury to insult); and there is no need for perpetuating farm prosperity at an abnormally high level.

Unfortunately, the issue is purely a political one, hence our doubt that sanity will prevail. By now every political analyst, and every politician,

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's market, don't miss it!

knows that it was primarily the farmers who re-elected President Truman last year and blasted the Republican majority out of Congress. The issue thus is loaded with political dynamite which always militates against statesmanship and integrity, against a sober and realistic weighing of all aspects of farm policy. It will take political courage for the Senate to tell agriculture that it cannot possibly be in its own interest to keep reaching for the moon. Has the Senate got that courage? Has it the courage to broach the issue how to maintain a sound agriculture with a proper regard for the consumer? Or will the consumers remain America's forgotten class?

FOREIGN TRADE TANGLE . . . Much talk here and abroad has failed so far to evolve much of a solution to Europe's foreign trade problem. Here in this country, the decline in overseas commerce is foremost, and naturally so, studied as an American problem. While trade with Marshall Plan countries has been maintained by means of a steady and heavy flow of Marshall Plan dollars, foreign countries not thus assisted have experienced a severe shortage of dollars leading to drastic reduction of imports from the United States. Trade with them has been virtually at a standstill, much to the concern of our manufacturers and exporters.

However, this does not entirely explain the condition of our export business, for the dollar shortage abroad is only one of the factors in the shrinkage of foreign trade. What affects the economic policy of many countries is the struggle for self-sufficiency and the desire to win a larger share in world markets than they normally enjoyed. In due course, rivalries and conflicts have emerged and nationalistic tendencies taken on new force, portending a period of increasing difficulties for our world commerce.

In Europe this trend toward self-sufficiency and promotion of larger exports could prove beneficial if the countries united for removal of trade barriers which now cut Europe into rival units, and eventually moved towards a realistic "division of work." But such, unfortunately, is not the case. This issue divided the Paris conference last June and led to a compromise between American and British negotiators. Our representative, Mr. Harriman, argued soundly but in vain for an easy flow of trade among European nations.

Ever since the 1930s, we have been slashing our tariffs under the Reciprocal Trade Agreements Act in the hope that this would bring down fences elsewhere. Tariffs abroad were lowered, to be true, but many were raised again and numerous import quotas and other restrictions imposed, greatly impeding trade. Thus reciprocity remains a shining but steadily receding ideal and it may have even harder sledding in the future.

Meanwhile American criticism of European countries resisting economic unity on that Continent is causing a good deal of cynical nodding of heads. Europeans have been wondering how long it would take us to realize that the Marshall Plan in its present form is contributing indiscriminately to the stability of governments with very different attitudes toward one of the Plan's main objectives — creation of a permanent machinery for linking national economies closer together. There is widespread conviction that Britain is impeding this aim and British actions have done little to dispel this belief. Other nations, too, have been giving less than wholehearted cooperation.

While there are, nevertheless, strong influences at work toward greater economic unity in Europe, so far there is no sign that they are working fast enough either to satisfy American opinion or to meet the mounting exigencies of the situation. The larger objectives of the Marshall Plan still remain to be carried out and progress will be tedious, and solutions difficult.

A POLICY FOR ASIA . . . It seems that at long last, some sort of a policy for Asia is being evolved though the initial approach would seem far from doing justice to the urgency and importance of the matter. Secretary of State Acheson's new plan for devising American policy includes a policy appraisal on a regional basis, instead of country by country, and this alone is progress. For if competently carried out, the results should make for a sounder pattern of policy than now exists.

But above all, there is great need to co-ordinate Asian policy with European policy, particularly in relation to colonial areas. And there is equal need for objective study of our actions by men not committed to any particular point of view. Particularly there must be a breaking down of the fallacious attitude that Asia is not of any great importance to us. It is, as we should know by now. Yet in some quarters there still prevails the view that the fate of Asia is of less immediate consequence to America than the fate of industrial Europe. Nothing could be farther from the truth.

Because of the existence of such attitudes, it has been much more difficult to devise a sound policy for Asia than for Europe. It is high time that our policy makers at long last make a determined effort to find answers to the perplexing problems which this country faces in the Orient.

POLITICAL STABILITY IN FRANCE . . . By a small margin of three votes, the French Government of Premier Henri Queuille has survived another crisis and now seems assured of retaining power at least until October when the National Assembly reconvenes. The Queuille regime, now in power for nearly a year, has quite unexpectedly lasted longer than any other since the war's end and this naturally reflects the growing stability of France itself. There has been spectacular evidence of the recovery achieved, including rising production, repeal of rationing, high and stable employment, and last but not least, the growing strength of the franc after a period of extreme weakness and distrust. American aid has been an important factor in these achievements.

French politics, as the French temperament, are volatile, thus it would be premature or futile to predict an extended future for the Queuille cabinet. However, it is noteworthy that the coalition of moderates has been running France for three years now and withstood many a crisis while the Communists' strength has diminished and the De Gaullists have been weakened by internal strife and disputes. France has made considerable strides down the middle of the road, and she appears determined to continue in the same direction.

As I See It!

BY ROBERT GUISE

WHO IS ON THE SPOT?

The dramatic drop in the price of British Government bonds is widely and correctly interpreted as reflecting serious lack of confidence in the Labor Governments' ability to surmount what it chooses to call the "dollar crisis." Obviously the British Government is approaching a grave trial both in the world markets and at the polls, and its success, or lack of it, in overcoming the economic crisis is bound to have a vital effect on the outcome of the next general elections. Its record in meeting problems looms as a big political issue.

Its record, however, is hardly conducive to confidence in the effectiveness of the British brand of state planning which, it appears, is responsible for a good many, if not most of the country's troubles. Few, even in Britain, are inclined to credit fully the Laborite's plaint that the American recession is largely to blame for the heavy economic weather which the country is facing, for falling exports and the dangerous drain on the sterling area's dollar and gold reserves.

JOHN BULL: "FILL IT UP OL' BOY"

"Loring in the Evening Bulletin"

To the contrary, the view—repeatedly expressed in this column—is gaining ground that a very considerable factor in Britain's decline are the high costs and low productivity of British industry, partly due in turn to excessive socialistic planning and the Labor Party's pampering of the workers upon whom it depends for its continuance in office. It is becoming plain that Britain simply cannot nationalize industry, create a super-welfare state and make the country a working man's paradise while at the same time trying to struggle out of the present economic morass.

Thus the Labor Party faces a serious dilemma. It has been said that the economic crisis has put the Party "on the spot." This is only too true, but it is not Labor alone that finds itself on the spot. So are we, and so are most European countries who are bound to be deeply affected by whatever may happen in Britain.

We are on the spot because we are the recipients of new British dollar demands, and the time is fast approaching when we must make up our minds and decide to what extent and how long we can afford to subsidize and underwrite British recovery.

The British request for another half billion in Marshall Plan dollars also puts the rest of the Marshall Plan beneficiaries on the spot because the additional funds would be at the expense of their quotas. Little wonder that the idea received a cool, if not hostile, reception in Europe. The few countries which are making real efforts to work out greater economic unity take a "poor view" of giving more than 40% of dollar aid to the country that seemingly is withdrawing ever farther into its nationalistic - socialistic shell.

In the circumstances, they are asking themselves — as we certainly must — whether Britain with her grandiose schemes of socialization is really playing the game. There are those who feel that she is "playing us for suckers!"

It is something that should give us pause when asked for more billions, even to reconsider a good deal of our past policies. It must be admitted that the situation in which we find ourselves is not an enviable one in view of the extent to which we have already become committed. Certainly precipitous action or withdrawal at this time might bring serious complications. But on the other hand we cannot go on subsidizing British recovery, and worse yet, British socialism, without more concrete and realistic cooperation on the part of Britain herself.

The latter should be fully realized not only by the Labor Government but by the British people when their time comes to go to the polls. They should ponder deeply whether (*Please turn to page* 508)

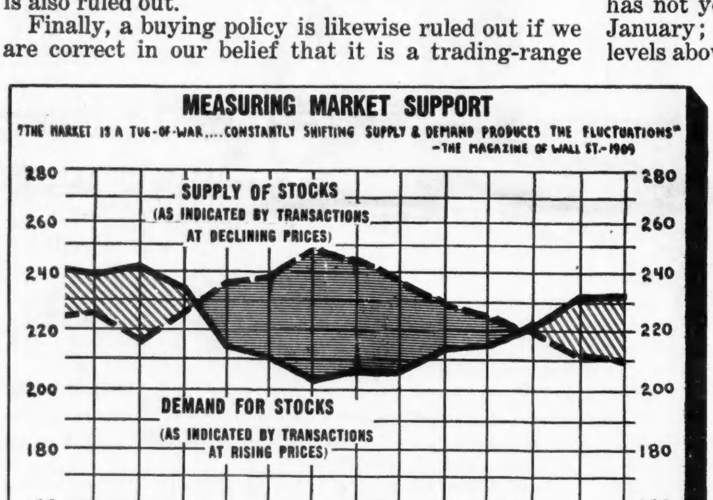
What's Behind Market Rise?

We continue to believe that this is no more than a trading-range rally in the market, and that the greater part of it probably has been seen. The current small rebound in business and in average commodity prices may delay completion of economic adjustment. There is no change in policy. Maintain substantial reserves, as previously advised.

By A. T. MILLER

The rise in average stock prices from the June low must, of course, be one of two things: (1) Just another trading-range rally, generally comparable to the irregular succession of those seen since the autumn of 1946, but less vigorous so far than the spring-summer rallies of both 1947 and 1948. Or (2) the initial phase of a new bull market. We do not see any basis for thinking it is the latter. That conclusion rules out a general buying policy. Moreover, even should it eventually develop that the final lows in the daily averages were seen in June, there is bound to be a substantial reaction in due time—probably sooner rather than later—which would provide both a significant test and, if the test is satisfactory, an opportunity to buy stocks at more attractive levels than now prevail. On this perspective, a buying policy now is also ruled out.

Finally, a buying policy is likewise ruled out if we are correct in our belief that it is a trading-range rally, because in this event the remainder of it, if any, must amount to a relatively modest percentage at best. Additionally, the duration will be too brief to be of any practical significance to longer-term investors who for tax reasons, figure potential capital gains in terms of holding periods of six months or more.



The Current Technical Indications

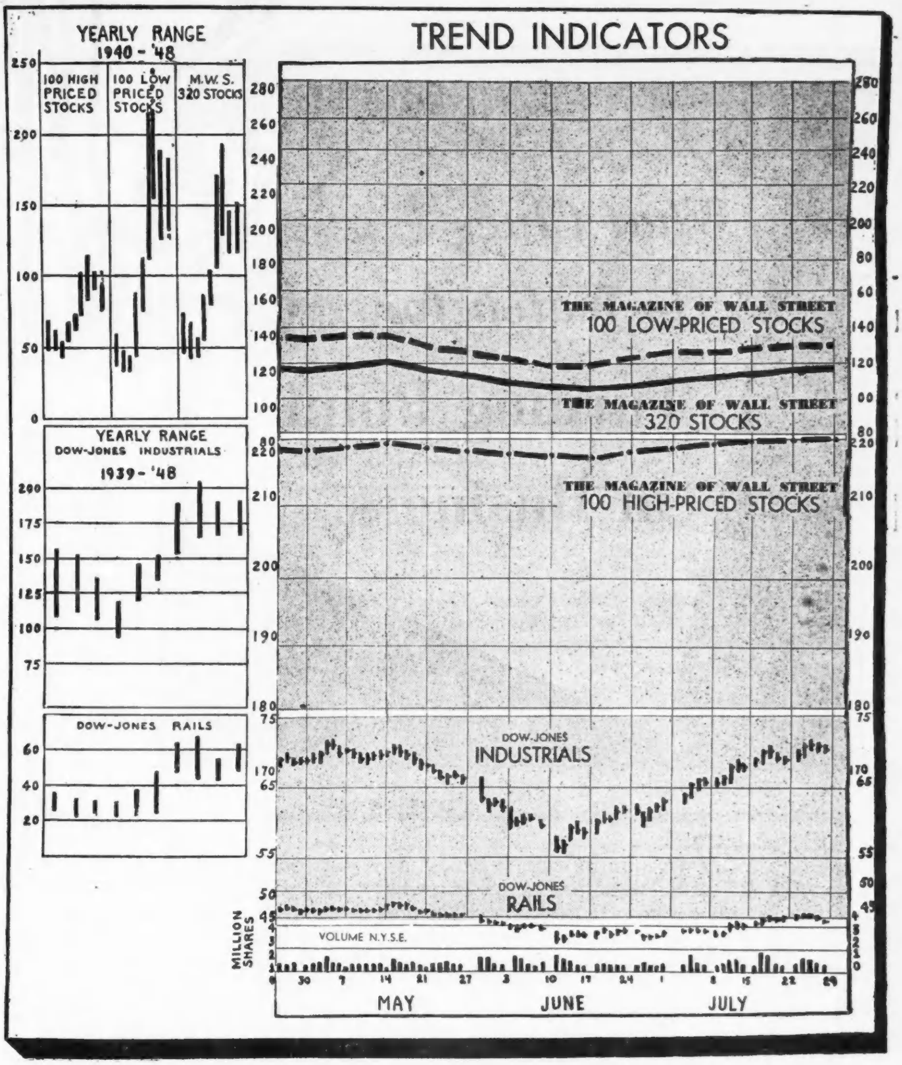
The daily industrial average edged up to another new high for this move in the trading week ended August 5. The pace of advance will necessarily slacken, as it usually does in the upper reaches of a rally. Thus, the further net gain in three weeks since mid-July has been roughly 2.8%, against about 7.6% in the first four weeks of the recovery. The average has not yet bettered its previous 1949 high, seen in January; and is now in an area where the supply levels above it are both closely spaced and formidable. The rail average, even though it extended this move slightly last week, remains sluggish. In comparison with the 1947-1948 rally highs, the utilities are making the best showing. The same could be said for the minority of investment-grade industrial stocks in stable consumer-goods industries and with secure dividends—the type of stocks in which we have for some time suggested concentration of the bulk of remaining equity holdings.

There is no great speculative interest in this rally yet. In reflection of that fact, our index of 100 low-priced stocks is not faring as well, relative to the general list, as it did on the best intermediate recoveries of 1948 and 1947. Possibly it may have a belated spurt, for sentiment that was gloomy not so long ago is now getting cheerful chiefly because the market itself makes it so. It is well to remember that stocks become dearer — not more attractive — on a rally; and that if some emotional bullishness is generated by this summer move, it will make a sell-off all the more certain, near and substantial.

The gap between the demand and supply lines on the accompanying Support Indicator chart has widened somewhat over the last fortnight, due about as much to decreased selling pressure as to

larger demand, inclusive of short-covering. It must be noted that in the past important market swings in more cases than not, have been signalled by a "crossing" when it occurs before or right around a turning point, whether intermediate or major, than when it occurs after a move has already made considerable progress, as was so in the present instance.

It might be argued that higher stock prices are justified by current evidence of improvement in business activity, although it remains to be proven that this is more than a temporary phase in an incomplete downward cycle; and by the reversion to inflationary Government policies. Granting some substance to this, the question is how much? There is no reason to think that the official index of production, estimated to have been in the vicinity of 166 for July, is headed back for last year's peak of 195. Regardless of the Federal deficit spending now indicated — which is very modest when compared with the total of private spending — and regardless of the continuing anti-deflation moves of the Federal Reserve Board in its field of credit control, there is no reason to think that commodity prices have resumed a major upward trend, or that we are going to return to sellers' markets. Finally, there is no reason to think that total corporate profits can possibly return to last year's excellent level. On the contrary, a 25% to 30% shrinkage for 1949 would seem to be about the minimum, despite well-maintained profits in the automobile industry—in which the readjustment is still ahead—and in a small number of stable consumer-goods lines.



With this in mind, and for a sensible perspective on stock prices, remember that last year the best that the market could do was to get up for one brief interval to a level about 8% above the present one—*when it had as "ammunition" to work on* (1) *an unprecedented volume of production,* (2) *a real inflationary trend in commodity prices,* (3) *sellers' markets in many industries,* (4) *some* $21 *billion in total corporate profits, against a current annual rate of around* $15 *billion, and* (5) *a confident, although mistaken, expectation that the present Left-of-Center and pro-Labor Administration would be turned out of office.* It might be added that in that environment the median level for the year in the Dow industrial average was approximately 179 or almost exactly where this average stands as this is written.

The Question of Confidence

The hardest problem confronting the market analyst is the matter of investment-speculative confidence, for it is an intangible thing affected more by imponderables than any statistical approach to stock values. Thus, confidence—mistaken, as it turned out—took stock prices far above present levels in the late 1920's, although stock values, as measured by price-earnings ratios and yields, were considerably lower than they are today. As noted heretofore, there is less "ammunition" for a rise to feed on than the market had in 1948. Can confidence be sufficiently stronger to make significantly more out of it than it did out of last year's more impressive "ammunition"? We doubt it.

We can see only one possibility, quite theoretical at this stage, that might make investors willing to pay significantly more for any given level of share earnings and dividends than they have been willing to do, on an average, during the past two and a half years. That would be development of a conviction that the new postwar "normal" for earnings and dividends has virtually been arrived at now, and that a much worse business slump than (*Please turn to page* 508)

What Clues to Watch for Turning Point in Business

By E. A. KRAUSS

Two months ago, it looked as if business, in its collective pessimism, might really talk itself into a good-sized depression. Things seemed to looked gloomy, or at least were painted a deep indigo. Industrial production had been sliding off since the turn of the year but the downtrend had accelerated noticeably in recent months. Industry after industry felt the impact of recession with steel, bellwether of the boom, at long last joining in. There was further erosion of the price structure, and business loans continued their long downward trek from last year's peak. News of plant shutdowns, rising unemployment, lagging sales, receding corporate earnings, dividend cuts and omissions became an almost daily fare. To cap it all, the stock market in mid-June suffered a severe break carrying the Averages down to four-year lows. There were few who would have ventured to predict an early improvement. The market, it was thought, is discounting a further deepening of the recession clearly heralded by the business news.

But strangely, the atmosphere of gloom soon gave way to distinctly better feeling. Instead of worsening, business news improved, and the stock market enjoyed a six-week rally that virtually cancelled the loss suffered during the preceding five-week decline.

Though overall production continued to drift lower, there were reports of a pickup in a number of lines. New England, the area first and hardest hit when the boom collapsed, came through with news of increasing output in woolen, rayon and shoe plants. After a long downslide of metal prices and almost no demand, prices recovered progressively, and so did demand. More lumber is now being shipped from mills than is being produced, and home construction has risen slightly above the level a year ago. In cotton textiles, where prices plummeted steadily for eighteen months and demand practically disappeared, buying is brisk again. Purchasers who were content to buy for immediate needs only and got delivery in two or three weeks, now find they must wait six to eight weeks, and some who cut inventories too sharply find that they will lose business because of empty shelves.

Inventories generally have been slimmed down at the retailer, wholesaler and manufacturing levels and cautious buying, in place of no buying at all, has returned without too much haggling over prices.

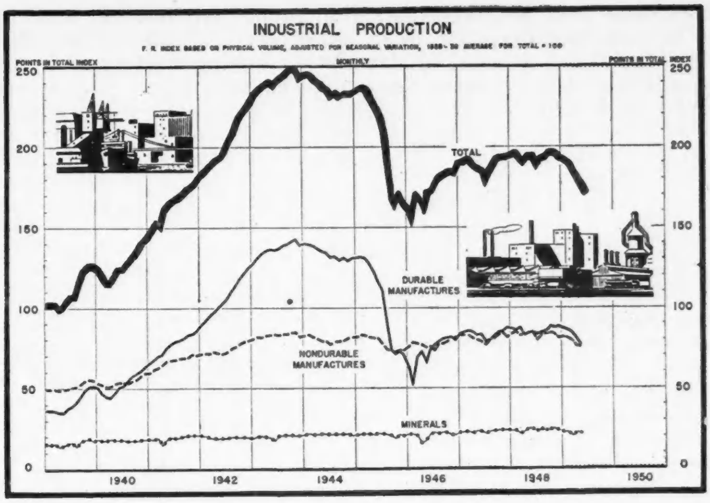
In short, sentiment even in the East, where the gloom was thickest, has suddenly given way to cautious optimism. While no one dares prophesy that all this means the end of postwar adjustment, the fact remains that many now believe that the recession has begun to level off and that economic activity may even show some rise during the third quarter above the mid-year level.

The new-found optimism is perhaps a natural aftermath of the preceding overdose of pessimism but is is likely more than just a psychological reaction. Something more solid is behind it. Still there is some danger that optimism may be carried too far, as was pessimism before. Doubtless, in the coming months, business will be quite mixed with some segments of industry moving ahead, others sidewise and still others downward. But overall we may well witness a halt in the decline, if only a temporary one, with further adjustments ahead.

Improvement Found in Many Directions

Reports of improved conditions come from many quarters. The National Association of Purchasing Agents in its monthly survey finds that in July, two-thirds of the plants included in the survey reported production either on the upgrade or holding to previous schedules, with order booking revealing the greatest strength since the start of the decline in general business. There are several trend indicators, it adds, which may be confirmed in August showing that the declining business cycle is approaching bottom. The downward price trend is showing a tendency to slow up and level off. And inventories continued to shrink at the same sharply declining rate reported for the three previous months.

Elsewhere there are reports that for the first time since the slump began, substantial volume buying has come into some fields during July and this no doubt has contributed greatly to the better feeling. In fact the busines pick-up which has started in the formerly depressed soft goods sector is now spreading beyond. There is some improvement in consumer hard goods and in many basic raw materials, strengthening hopes that hard goods lines may not be too long in following soft goods on the way up.



Seasonal or More Lasting Pickup?

Quite obviously a seasonal pickup in business is getting underway but whether it will hold or can carry over into 1950 is another matter. After all, there has seldom if ever been a period of business decline where the first rally actually marked the turn of the tide. Usually there has been some "false start" or temporary upturns before the economy was ready for a more sustained rise. Something of the sort may happen now though it is not impossible that this time "it might be different." Precedent is not always a reliable indicator since conditions are never quite the same. To obtain an idea of what's ahead, let's look for, and analyze, some clues that might give helpful answers.

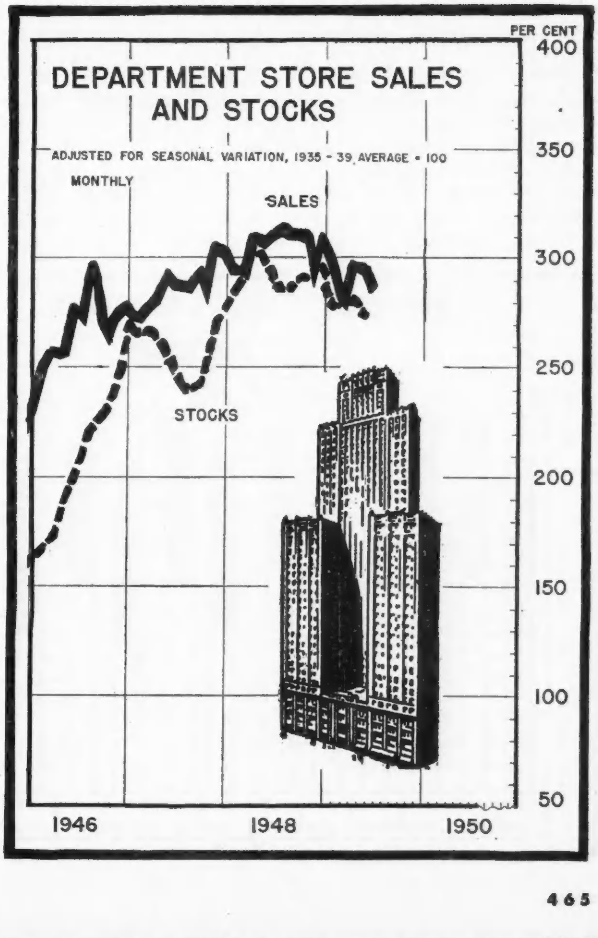
It is well to make clear one thing at the outset. The change for the better in sentiment is the *result* of improving business, not the cause of it. Recovery tendencies have started even while the gloom was thickest; in fact it was the thickness of the gloom that obscured them. And recovery tendencies have made themselves felt for good economic reasons.

Why Business Is Recovering

One was the rather exaggerated buying caution and the severity of inventory liquidation. As a result, it is now believed that inventory adjustment may be shorter than many anticipated, that some lines may have already seen the turn. Since overall inventories haven't been top-heavy, certainly not in relation to sales, inventory readjustment probably doesn't have far to run. It is pretty much over in most soft goods lines, and well along in many hard goods areas. This means new buying, stimulating business; it's what is going on right now in various fields.

For half a year now, there has been a general disposition on the part of business to shorten commitments, reduce inventories and wait for lower prices, and the curtailment which began at the consumer level has begun to reach back into basic industries. Price adjustments in many areas have been taking place at a rapid rate but significantly, since mid-June, wholesale commodity price averages have held within a very narrow range. Outstanding developments on the price front have been the moderate tempo in farm price declines despite looming surpluses and the recovery of non-ferrous metal prices which have snapped back smartly after their earlier sharp slides. As it is, raw materials prices definitely turned up in July, perhaps temporarily so, but it is the first rise in almost a year. This means that inventory liquidation is slowing down, and new buying picking up. Significantly, also, the commodities futures index has been in a steady uptrend since early June, implying higher prices in the months ahead. Unquestionably these price developments have their impact on business decisions.

They permit the conclusion that not only has there been considerable improvement in the inventory picture to the point where many buyers must return to the markets to maintain adequate working stocks, but that new doubt has arisen whether and how far price deflation will continue in view of reflationary measures undertaken by the Government. These measures, basically inflationary, may



take some time to make their full impact felt but it is quite possible that mere anticipation of another inflationary boost is stimulating buying well in advance. Once business is convinced that price deflation is arrested, it has nothing to gain pricewise by waiting any longer. It could lose by waiting too long and letting inventories run off too much.

Test Is Yet to Come

The test of just what's behind the current revival of buying activity will come in a few weeks hence. If the improved buying subsides or settles down to a slower pace, we can safely conclude that the need to replenish depleted stocks for fall business was the principal motive. Should it keep up or even broaden further, the new inflationary expectations are likely the dominating cause.

At this writing, markets generally display a better price tone than for some time past. Even among manufactured goods, both soft goods and durables, there has been some firming though trends are quite mixed with price cuts continuing here and there, particularly in lines where business has been slow in making downward readjustment. But where downward revision was drastic, a firmer tone is generally prevalent.

Though this could be temporary, there are several forces at work to put a floor under prices. There is the threat of fourth round wage increases and the general rigidity of the wage structure as a whole. Also, price cuts have cleaned up excessive inventories in many lines and price shading by marginal producers has generally been met by the major companies. Raw commodities, as mentioned before, have risen about 3% in the last month. Moreover, the sharp rise in non-ferrous metals has jolted buyers who were holding back and must now pay higher prices. Broadly speaking, high costs and Federal supports are bound to leave relatively little leeway for further price declines, and once this is generally realized, more normal inventory buying is bound to ensue. This move has already started; the question is: How much momentum will it gain?

General expectation is that July will have seen, at least temporarily, the bottom of the business decline with a subsequent levelling off or moderate rise in overall economic activity. There has been real improvement in new orders, in production, in price stability. Inventories in June have declined further by $500 million, compared with drops of $1.2 billion in April and May. This seems to confirm, as stated before, that inventory liquidation is proceeding at a slower pace because they have already been reduced so much. Of the $500 million June drop, $300 million represented durable goods.

At the same time durable goods sales have been rising by $300 million, largely the result of a spurt in automotive sales. Non-durable goods sales declined $100 million, centering on food sales, while textiles, leather and chemicals all reported larger than normal seasonal increases. The June rise in manufacturers' sales was contra-seasonal, hence a favorable sign portending further improvement. We consider rising sales of the chemical industry particularly significant since chemical sales and plants in recent months have been turning out less but the decline in production has been levelling off and an at least moderate increase in the near future would not surprise.

New orders also furnish an excellent clue to what's ahead, and new orders have been picking up, though only modestly so far. In May, for which latest figures are available, new orders for non-durable goods have been rising about 6% though the gain by now should have become more pronounced. Durables dropped about 5% chiefly because of slackening iron and steel orders, while new orders for machinery and other durable goods improved. This more favorable trend in new orders is already finding reflection in productive activities; their future trend bears close watching as an indication of how far the business upturn may go. Meanwhile inquiries, preceding new orders, are reported more active than for some time.

Another interesting signpost has been the latest reversal of the long downtrend in business loans which broke out of a 27-week decline by rising $16 million in the week ended July 27. It checked a drop that had continued without interruption since January 12 and carried total business loans by the banking system to a point $2.75 billion below the high reached last December 22. The upturn was undoubtedly due in large part to business borrowing to build up inventories for the fall and Christmas season, thus can be characterized as an overdue seasonal rebound since normally loans usually reach their low point in May or June. This "delayed" rebound attests to the suddenness of the current business improvement phase. While small, the increase may nevertheless be significant if the trend continues.

Factors Behind Business Improvement

To summarize, back of the current business improvement are, in our view, three outstanding factors: (1) The need to replenish inventories which in many instances were reduced far below current requirements, preparatory to a seasonal uptrend in fall business. (2) Some anticipatory buying, particularly of steel because of fears of major strikes in the steel (*Please turn to page* 506)

The Varying Recession Impacts

Revealed by

Second Quarter Earnings

By WARD GATES

The increasing number of second quarter earnings reports now coming to hand are beginning to furnish the answer to the vital question: What is the recession doing to corporate earnings? In some fields where readjustment hit early, the answer of course was evident before. First quarter reports provided a pretty good idea. But during the second quarter, recessive trends were spreading notably, embracing an ever larger area of the economy including quite a number of durable goods industries. Steel, bellwether of the boom, was beginning to lag, and by mid-year only the automobile industry was still going strong, setting new records.

This course of development is clearly shown in second quarter reports. While automobile companies are reporting peak sales and profits, most others show lower figures, some drastically so. They reveal the effect not only of lagging sales but of declining prices, rising costs and, consequently, narrowing profit margins. They make it clear that the time for inventory windfalls, so prominent a feature last year, is definitely a thing of the past. Few have been making money on mark-ups this year while a year ago, almost everybody did. This year, some have taken losses instead.

In general, corporate reports indicate that profits often have skidded far worse than sales, and frequently earnings have gone down even on higher dollar volume. But lower sales have been the rule, with the food industry, particularly the food chains, a notable exception. Elsewhere profits of course have far from evaporated; while lower, they are still quite good in most cases by any pre-boom standard. And the drop in aggregate corporate profits to-date has been relatively moderate because decreases in some industries have been offset by increases elsewhere.

On a half-yearly basis, the steel and automobile industries had unusually large profits because they operated at capacity much of the time and materials costs were moderately lower. But the recent decline in steel operations makes certain a substantially reduced volume of profits in that industry for the second half of this year. Earnings in the automobile industry are likewise expected to recede because of a prospective downturn in sales, possible price reductions or both. On the other hand, heretofore depressed industries are likely to do better, as for instance certain branches of the textile industry where a mild revival of activity is currently under way. Second quarter reports, and half-yearly results, thus are not always a reliable indicator of what the rest of the year will bring.

Estimated earnings of all corporations in the first quarter were down about 17% from the 1948 peak reached in the fourth quarter. Profits in the second quarter this year will probably be some 25% below the 1948 quarterly top. Still dividends so far have declined only slightly; they show every sign of relatively greater stability than earnings.

The impact of readjustment, which must be regarded as a return to more normal earnings, has raised the question whether earning power, widely believed overstated during the period of inflation, is now understated. There are several answers to this. Second quarter results in various fields can

hardly be regarded normal, particularly where operations have felt the impact of a drastic, though temporary industrial buyers strike. Normal earning power which will be achieved when buying policies have returned to customary habits, is likely to be higher in such cases. On the other hand, the former element of overstatement inherent in inventory windfalls and other non-recurring earnings is now absent.

But a degree of overstatement may still be found because depreciation allowances continue below the greatly increased cost of replacement of fixed assets. Since the decline in replacement costs from the recent peak has been negligible, it is difficult to argue that much of a change has occurred in that respect. It means that the element of overstatement inherent in this factor remains. On the other hand, whereas the inventory profit element has been largely eliminated, it has not been replaced by any considerable amount of inventory losses that might result in temporary understatement of earnings. So many corporations have adequate reserves against that contingency, or carry their inventories on a LIFO basis or otherwise below prevailing price levels, that the price drop in many instances has not unduly narrowed profit margins.

On balance, then, the conclusion will be that a certain degree of overstatement in *reported earnings* persists because of the depreciation-replacement factor; but also that current results in many lines severely affected by readjustment by no means constitute expectable normal *earning power* under an adjusted economy.

To illustrate the widely varying trends of sales, earnings and profit margins, we have prepared a table containing statistical data covering the first and second quarters this year, and comparable figures for the second quarter last year. These figures are highly revealing, ranging from drastic profit shrinkage to new peaks.

An example of the former is Pacific Mills where per share net in the second quarter dwindled to six cents compared with $2.04 in the first quarter and $3.08 in the June quarter last year. The severe earnings drop occurred on a decline in sales volume of less than 8%, yet the pre-tax margin shrank from 13.1% in the first quarter to less than one-half percent, attesting to the impact of costs on dwindling volume. Obviously second quarter volume of around $22 million constitutes pretty nearly the break-even volume; any further drop would mean red ink. But improvement is in sight.

By way of contrast, the report of General Motors is a story of records, both as to production, sales

Quarterly Sales, Profit Margins and Earnings of Selected Companies

	Second Quarter 1949			First Quarter 1949			Second Quarter 1948		
	Net Sales ($ mil.)	Pre-Tax Margin	Net Per Share	Net Sales ($ mil.)	Pre-Tax Margin	Net Per Share	Net Sales ($ mil.)	Pre-Tax Margin	Net Per Share
Acme Steel	$14.1	12.7%	$.56	$14.6	14.3%	$.65	$14.7	16.2%	$.74
Air Reduction	22.7	11.3	.56	24.2	12.6	.66	23.4	11.6	.61
American Steel Foundries	16.5	18.6	1.55	22.2	17.2	1.70	21.2	12.2	1.20
Admiral Corp.	29.6	n.a.	1.62	23.5	10.6	1.54	15.4	7.9	.71
Bayuk Cigars	n.a.	n.a.	.12	6.9	4.0	.13	10.2	9.6	.66
Budd	70.3	8.5	.95	67.4	9.7	1.04	53.7	7.6	.60
Certain-Teed Products	10.4	17.5	.64	9.2	14.9	.50	13.0	21.7	1.00
Container Corp.	26.9	9.8	1.56	28.5	11.2	1.89	31.0	10.9	2.02
Continental Steel	7.1	7.3	.42	7.3	11.3	.41	7.1	9.9	.81
Continental Baking	37.4	5.3	.83	36.9	5.7	.90	40.5	8.3	1.60
Douglas Aircraft	26.3	10.2	1.62	25.9	12.2	3.34	27.5	2.3	.67
Elgin National Watch	6.3	10.2	.50	4.5	7.5	.27	6.4	10.2	.51
General Electric	390.1	7.8	.69	411.6	12.4	.93	406.8	13.0	1.01
General Foods	30.2	13.4	.87	30.2	13.8	.90	32.4	14.0	1.00
Johns-Manville	38.2	12.4	.97	38.0	11.4	.97	39.9	12.5	1.12
Joy Mfg.	12.3	8.7	.76	14.8	13.9	1.46	16.6	16.5	1.94
General Portland Cement	5.5	n.a.	1.38	4.9	37.5	1.13	4.7	35.5	1.04
General Motors	1,595.0	18.3	3.72	1,282.0	18.1	3.04	1,145.0	16.5	2.43
Hercules Powder	30.2	13.4	.87	30.2	13.8	.90	32.4	14.0	1.00
Loew's, Inc.	43.4	3.1	.20	55.5 k	9.2 k	.60 k	43.4	4.0	.16
Mead Corp.	16.2	4.2	.41	18.9	8.3	1.17	19.4	9.8	1.50
Mullins Mfg.	7.3	12.3	.45	7.9	15.2	.61	11.4	22.3	1.28
National Biscuit	74.8	12.7	.85	75.6	11.8	.77	72.5	12.4	.80
National Supply	36.2	6.6	.87	40.4	12.5	2.01	41.3	9.8	1.55
National Tea	62.4	2.5	1.19	62.8	2.7	1.34	61.3	2.6	1.51
National Cash Register	44.0	10.9	1.53	42.0	13.1	1.69	43.1	14.7	1.98
Pacific Mills	21.9	.5	.06	24.0	13.1	2.04	27.2	18.7	3.08
Penn.-Dixie Cement	4.8	25.0	1.24	3.1	16.3	.59	5.1	24.0	1.47
Ruberoid Co.	13.6	15.1	2.80	8.9	9.0	1.06	15.4	15.2	3.20
Sharp & Dohme	9.2	19.0	.88	10.2	21.6	1.48	7.8	14.9	.72
Shell Union Oil	192.7	11.3	1.20	205.2	14.7	1.59	192.8	9.5	2.00
Sunray Oil	14.7	20.0	.36	14.4	25.0	.45	15.0	33.5	.69
Texas Gulf Sulphur	16.3	57.0	1.97	14.9	59.3	1.90	16.1	56.1	1.67
U. S. Steel	647.0	12.5	1.45	664.9	13.9	1.67	578.4	15.1	1.01
Wrigley	18.2	32.0	1.85	16.9	30.9	1.63	14.8	32.6	1.52

n.a.—Not available. k—16 weeks.

Dividends on Common Stocks Listed on the N. Y. Stock Exchange — First 6 Months, 1949

Industry	No. of Issues Listed (6-30-49)	Number Paying Cash Dividends In First 6 Months 1948	1949	Number Paying Increased Dividends	Number Paying Same Dividends	Number Paying Reduced Dividends	Estimated Aggregate Amount of Dividend Payments 1st 6 Mos. 1948	1st 6 Mos. 1949	Per Cent Change
Aircraft	24	4	9	7	2	1	$ 5,485,000	$14,795,000†	+169.7%
Amusement	24	17	16	3	6	8	31,349,000	31,081,000	— 0.9
Automotive	69	58	53	23	27	10	128,942,000	183,871,000	+ 42.6
Building Trade	29	27	28	10	16	2	21,109,000	22,440,000	+ 6.3
Chemical	79	74	71	16	48	10	179,937,000	206,852,000	+ 15.0
Electrical Equipment	20	20	18	3	13	4	39,909,000	45,323,000	+ 13.6
Farm Machinery	8	6	7	2	4	1	20,056,000	20,281,000	+ 1.1
Financial	30	26	27	15	11	1	34,947,000	40,170,000	+ 14.9
Food Products and Beverages	68	65	61	9	38	18	107,781,000	96,592,000	— 10.4
Leather and Leather Products	11	10	9	0	4	6	10,638,000	10,234,000	— 3.8
Machinery and Metals	102	92	93	28	50	18	62,663,000	66,835,000	+ 6.7
Mining	38	30	26	8	14	8	63,128,000	65,504,000	+ 3.8
Office Equipment	10	9	9	2	6	1	13,851,000	14,980,000	+ 8.2
Paper and Publishing	35	33	31	7	20	6	32,183,000	32,201,000	+ 0.1
Petroleum and Natural Gas	43	40	39	16	18	7	207,769,000	236,028,000	+ 13.6
Railroad and R.R. Equipment	82	52	57	15	38	5	104,955,000	118,447,000	+ 12.9
Real Estate	10	6	7	1	6	0	6,085,000	6,287,000	+ 3.3
Retail Trade	71	65	64	13	41	11	114,054,000	124,681,000	+ 9.3
Rubber	10	8	8	0	6	2	18,530,000	16,421,000	— 11.4
Shipbuilding and Operating	11	8	9	1	7	1	7,261,000	7,118,000	— 2.0
Steel and Iron	39	31	34	19	11	4	70,184,000	86,736,000	+ 23.6
Textile	43	41	42	11	19	12	41,273,000	40,785,000	— 1.2
Tobacco	16	15	15	4	10	1	34,335,000	38,451,000	+ 12.0
Utilities	76	64	62	21	38	6	224,546,000	243,049,000	+ 8.2
U. S. Cos. Oper. Abroad	24	11	11	0	6	5	33,337,000	31,078,000	— 6.8
Foreign Companies	17	13	13	4	7	3	40,326,000	41,068,000	+ 1.8
Other Companies	18	17	17	6	8	4	12,514,000	11,967,000	— 4.4
Total	1,007	842	836	244	474	155*	$1,667,147,000	$1,853,275,000	+ 11.2%

†—Increase largely accounted for by payments of six plane manufacturers, who distributed no common dividends in first half of 1948.
*—Payments were reduced on 118 issues and eliminated or deferred on 37 issues.
Source: Magazine "Exchange" published by N. Y. Stock Exchange.

and profits. Second quarter dollar sales reached a historic high of $1,595 million, substantially up from $1,282 million in the first quarter and $1,145 million in the June quarter last year. Per share net reached an all time high of $3.72. Unit output totalled 791,596 cars and trucks compared to the previous high of 757,505 in the second quarter of 1941. In the first 1949 quarter, output came to 560,-542 units.

It is notable that the percentage increase in unit sales for the second quarter was larger than the percentage gain in dollar sales; the latter increased at a lesser rate because of a drop in sales of automotive replacement parts. Also, net income in the first six months was 10.6% of sales against an average of 11.5% for the 1936-41 period. This decline in the rate of profit, in the face of higher dollar sales, is believed to reflect the inflated dollar and a higher rate of cost increases. Second quarter pretax margins, however, showed a slight gain over the first quarter and was about 2% higher than a year ago. .

The GM management correctly warns against projecting volume and profits over a longer period ahead on basis of latest results. It stated that there were no model changes to restrict production during the second quarter and that sales were still riding the crest of a large backlog of demand. This backlog is expected to be met by the end of the year. Even prior to that, output and sales in all but the Chevrolet division is likely to recede somewhat in line with seasonal trends that have already returned in medium- and high-priced lines. It would not surprise, therefore, if GM's second quarter results represent a record that may stand for a long time, and will not be matched during the balance of the year. Apart from automobiles, GM sales of Diesel engines have declined somewhat, the supply of household appliances substantially meets demand and sales of automotive replacement parts have tapered off from the abnormally high levels of earlier postwar years. By the end of the year, motor cars and other GM products are expected to be in ample supply. Thereafter, the company can produce only to the extent that its sales can be supported by current economic activity, and profits will be affected accordingly.

Another industrial giant, U. S. Steel Corporation, chalked up records in first half operations, exceeded only in the boom year of 1929, but second quarter sales and earnings receded from first quarter figures. Sales declined from $664.9 million to $647 million, and per share net from $1.67 to $1.45. In view of declining steel operations, the first quarter is likely to stand as the postwar peak.

Chairman Olds disclosed that orders, production and shipments have fallen off sharply in recent weeks, pointing to lower third quarter profits. During the first twenty days of July, deliveries were at the rate of 70.3% of capacity and production in the July 23 week averaged 80.9% compared with the second quarter average of 99.8%.

Apart from declining volume, the corporation faces higher coal costs, an (*Please turn to page* 506)

Behind the . . . . . IRON CURTAIN

By V. L. HOROTH

Paying for the European Recovery Program may at times be resented by the American taxpayer, but the truth is that one year of Marshall Plan aid has achieved remarkable results in most of the recipient countries of Western Europe. There is little or no danger of communism spreading westward; by making available more goods, Marshall aid has helped to arrest inflation. Above all, however, it has helped to restore confidence in the future. The people of Western Europe are no longer living in fear of what the next day will bring. Businessmen can once more plan ahead with some degree of confidence, and the people are again beginning to save.

This great change that has taken place in Western Europe is strikingly evident when one slips across the "Iron Curtain" going westward from the so-called Soviet satellite countries. The contrast is nowhere greater than when one crosses from bleak and shabby Soviet-dominated Eastern Germany into Bizone Germany which is humming with activity. One gets a similar impression when crossing from Czechoslovakia, now a dispirited country with a rapidly declining standard of living into Austria, now a busy country and quite hopeful of an eventual solution of her economic problems. Only two years ago, the situation was reversed. Czechoslovakia was then rapidly recovering, while Austria was in the midst of inflation and deeply worried about unemployment.

The job of putting Western Europe back on her feet is, of course, far from finished. The task ahead is particularly difficult because it calls for stopping the disintegration of the Western European economy, resulting from some countries, such as France, Italy, and Belgium, moving toward greater economic freedom and freer trade, while a number of other countries, such as Great Britain, Sweden, and the Netherlands, are moving toward autarchy and more and more extensive planned economy. The time has come for the establishment of more realistic exchange rates, and for shedding the shackles of bilateral trading. In brief, a greater harmonizing of recovery efforts, and a closer integration of the individual Western European economies is badly needed if further progress is to be made, and the success of the Marshall Plan to be assured.

Obviously, the progress of economic recovery in Western Europe during the crucial period ahead is likely to be slowed down. Business recession in the United States and the adjustment to the growing competition in international trade will unquestionably create additional difficulties. At this point the question has been raised: What are the chances of *the communist Eastern Europe* overtaking, in the way of reconstruction and recovery, *non-communist Western Europe?* This is an important question. The considerable advantage which Western Europe has maintained in the way of recovery over Eastern Europe has been one of the most powerful weapons in combatting communist propaganda and pressure. Any falling behind on the part of Western Europe would strengthen the communist fifth column in France and Italy, and concurrently weaken whatever opposition there is left to the present regimes in the East.

Slowly Expanding Industrial Production

What progress in the way of recovery have the Eastern European satellite countries made during the past year? There are only six countries now organized in the so-called "Council for Mutual Economic Assistance," popularly known as "the Molotov Plan." These are Poland, Czechoslovakia, Rumania, Hungary, Bulgaria, and Albania, and their population is just under 70 million. Finland, which has successfully opposed Russian interference in its affairs, pursues non-communist though socialist economic policies. It also trades heavily with Russia and the satellites.

Another "independent" Eastern European coun-

try is Yugoslavia which achieved the distinction of being the first "communist heretic" country. Her economic policies—unlike those of Finland—are communistic, perhaps even more so than those of her "orthodox" neighbors. Yugoslavia remains economically isolated from the West, and at the same time her trade with the Soviet Union and the satellites has been drastically slashed during the past year. As a result, Yugoslavia's somewhat over-ambitious Five Year industrialization plan has been disrupted.

But the satellites have also suffered from the quarrel between the Cominform and Marshall Tito. Poland and Czechoslovakia are in need of copper and lead which they customarily get from Yugoslavia. It is said that the basic reason for the Cominform-Tito split is the attitude toward agriculture. The Cominform apparently stood for the eventual nationalization of land, while Marshall Tito has so far preferred—in order not to antagonize the peasants—a policy of encouraging cooperative rather than collective farming.

On basis of available statistical information, the satellite countries have been doing fine. Industrial production is back at the prewar level, and agricultural production will probably be back to normal this year except for livestock. But the data need interpretation. As will be seen from the accompanying tables, the commodity output per capita remains still only about one-sixth as high as in the United States, and about one-fourth as high as in Western Europe. Moreover, relatively fewer consumer goods are being produced than before the war because of the concentration on output of capital goods. In other words, while Eastern Europeans may be able to eat a little better, their needs of clothing and shoes will be barely met and there is, of course, no chance that the present generation will enjoy any niceties of life.

The Satellite Countries: Net Value of Commodity Production (with comparisons)

(Millions of dollars in 1938 prices)

	Agriculture		Industry		Total Commodities		Commodity Output per capita*	
	1934-1938	1948-1949	1938	1948	1938	1948	1938	1948
Czechoslovakia	466	373	875	892	1,500	1,415	103	115
Hungary	305	259	241	243	580	540	63	59
Poland	1,164	815	711	946	2,145	2,086	62	87
Bulgaria	191	191	65	111	266	313	43	44
Rumania	444	465	234	190	758	715	38	45
Finland	126	101	137	196	396	442	108	110
Comparisons:								
Great Britain	732	842	6,696	8,102	8,688	10,024	182	200
France	1,995	1,662	3,155	3,407	5,680	5,799	136	139
Italy	1,100	990	1,798	1,564	3,085	2,679	71	58
Sweden	258	271	771	1,102	1,281	1,637	203	237
United States	5,580	7,980	21,500	36,550	29,030	47,740	225	331

* Actual dollars.

SOURCE:
U.N. Economic Commission for Europe • Economic Survey of Europe in 1948

Must Depend On Their Own Resources

Except for some help from Russia—Hungary and Rumania, for example, have been getting or are to get some textile machinery from there—the satellite countries must depend almost solely on their own resources for the expansion of their industrial capacity. Larger imports of machinery and industrial equipment could, of course, speed up industrialization, but the shortage of dollars and of other Western European currencies has been a serious obstacle. With hardly any credits available, everything that Eastern Europe imports must be paid for with "cash on the barrel"—the proceeds of their own exports. And often even the fact that cash is available does not help, because much of American and Western European industrial equipment has been unavailable to the satellites because of its potential military value. A number of Czech, Polish and Hungarian plants are either unfinished or idle because the equipment ordered here has been temporarily withheld. With the "cold war" tension somewhat abating, apparently some delayed equipment—mining and food processing machinery, and ball bearings — has recently been released to Czechoslovakia.

There is a possibility, of course, that when Germany's industrial plants are back in full production, more machinery for Eastern Europe will be available from Germany. Most of the industrial equipment in the East is of German origin anyhow, and the Germans are again looking to the countries of the Danubian Basin as their natural market. But the problem of payment will remain. It has been suggested that the satellite countries may solve it by concentrating on dairying and livestock production, since the cash return would be larger than from field crops.

At any rate, if the West is not too anxious to sell to the satellite states the needed equipment and machinery, it may delay their industrialization to fit its own plans.

While the West has its troubles in agreeing on common economic policies, the East has a long range problem in training a skilled labor force and in developing competent (*Please turn to page* 504)

Planning in Eastern Europe

	Tractors		Fertilizer	
	Total Number	Arable Land (La) per Tractor	(000) Tons	Kilos per Hectar
POLAND (1950-1955 Plan)				
1946	5,500	3,000	142	8.6
1948	14,400	1,150	179	10.8
1955 (pl)	76,500	220	552	33.5
CZECHOSLOVAKIA (1949-1953 Plan)				
1946	11,800	460	132	24.3
1947	16,000	340	129	23.8
1953 (pl)	45,000	120	156	28.7
HUNGARY (1950-1954 Plan)				
1947	11,900	490	1	.2
1954 (pl)	21,000	280	90	15.5
RUMANIA				
1948	11,000	850	—	—
1949 (pl)	12,500	740	—	—
YUGOSLAVIA				
1946	4,000	1,800	7	.9
1951 (pl)	4,500	1,710	63	8.2
BULGARIA (1949-1953 Plan)				
1946	4,600	920	—	—
1948	5,000	850	—	—
1953 pl)	10,000	430	—	—

Happening in Washington

NO MAJOR ANTI-MONOPOLY BILLS

By E. K. T.

CARTOONISTS have had a field day picturing long-suffering consumers bitingly asking indolent clerks, "Don't you know the war is over?" but, perhaps, it wasn't so funny after all. Congress doesn't know whether the war is on or off. And important matters hinge on the answer. If the war is over, congressmen are wasting time in Washington for the Reorganization Act ended the session June 30; more important, any action taken after that date is voidable. (In time of war the session may continue interminably.) Speaker Rayburn thinks the Supreme Court eventually must answer the question.

COMPETITION with private business is contemplated in the Gillette Bill which would create a Federal Alcohol Corporation to produce motor fuels and anti-knock compounds from surplus farm products. Operation of three plants in Iowa, Misouri and Nebraska is proposed. Surplus farm products would be purchased from the Commodity Credit Corporation and processed. Spoiled, off-grade, or deteriorated agricultural and forest products could be used and, Gillette says, 100,000,000 gallons of industrial alcohol could be made annually and "sold in competition with present producers."

ANTI-MONOPOLY activity in legislative circles is on the increase but safe prediction still is that no major bills will make their appearance this year. A house commitee has reported favorably the anti-merger bill which strengthens present statutes by forbidding corporations to acquire assets of competing companies when the result would be to lessen competition. The law now provides penalties against stock acquisition under those conditions, doesn't affect commodities standing alone. Similar bills have had committee approval before — twice — but never reached the calendar.

RETURN of the ECA appropriation bill to committee as a result of argument over the McClellan Amendment, which would earmark much of the money for specific commodities (whether beneficiary countries want them or not), cannot be taken to mean that the amendement has gained support. The recommittal came on a technical point of order. But the shape of the legislation may undergo changes as a result. There is growing sentiment, especially in the senate, for sharp cuts in the amount, so much, in fact, that there may be additional hearings on that point. Farm groups, in whose interest McClellan acted, will demand a deep cut in the appropriation if it is not to be used to clear the market of surpluses.

WASHINGTON SEES:

"Watchdog committees" are losing their popularity with congress. Capitol Hill, which broke out in a rash of these groups a few years ago, tends now to abandon them, ignore them, or openly quarrel with their findings. The idea of continuing studies by agencies outside the halls of congress is frowned upon largely because they have a tendency to usurp legislative prerogatives by gaining the public ear and have been found to shape voter sentiment along lines which make it difficult for the lawmakers to support contrary opinions when bills are up for action.

The Committee on the Economic Report is the classic example of a "watchdog" that has gone far beyond recording the facts of economic life and is trying to shape them. Even though it has but three members, there is a constant wrangle as to what its role is; the majority usually comes up with data and argument to sustain White House proposals while the one-man minority contends legislation is beyond its role.

The Joint Committee on Foreign Economic Cooperation has just narrowly missed extinction. The house eliminated funds for its continuation, and the senate restored only a fractional part of the budget in a bi-partisan attack which found Senators Lucas and Vandenburg joining hands. This "watchdog" simply duplicates an existing fact-finding agency, eventually will go.

Most publicized of them all was the "watchdog committee" on labor legislation which held hearings, submitted voluminous reports on labor-management relations under the Taft-Hartley. Neither it nor its findings received mention when the law was up for revision this year.

As We Go To Press

Relief over the apparently assured demise of the "52-20 Clubs" (groups of war veterans drawing weekly payments of $20 for 50 weeks of unemployment), is dimmed by the spectre of a new general bonus bill. Rep. John Rankin who's using his prerogative as veterans committee chairman to bottle up a measure reviving the weekly payment plan, has let it slip out that he's planning another of the adjusted service payment proposals -- a bill similar to the one which precipitated the "bonus march" on Washington almost two decades ago.

The formula, rather than the cash payment, bothers Rankin. The system which expired July 25, subject to revival by congress, is "rocking chair money," he says. But his adjusted compensation plan, he rationalizes, is just what the name implies; he would "adjust" the pay received by servicemen during the war to the extent of $3 a day for each day in uniform, and $4 a day for overseas duty. A limit of $5,000 would be set in each case, and estimates of the cost range all the way to 60 billion dollars.

The fantastic cost comes home more readily when it is kept in mind that the house already has approved a Rankin general pension measure which would cost 65 billion dollars. And the congressman, if he plans the bonus as a substitute for the other bill, hasn't said so. Senatorial comment indicates the bonus will be blocked there, if it gets that far. In fact, the general pension measure has had a cool reception, with no present signs that it will even come up for debate and vote.

Commerce Department has completed the task of collating material gathered in its recent Census of Manufactures, covering 91 industries. It isn't up-to-date material. The data covers the 1947 calendar year, but that is considered to be the first full year of peacetime operations following the abrupt post-war industrial mobiilzation, a fact which lends the report some significance as showing the way the studied lines of business weathered the change.

Identity of individual firms is protected by secrecy, and aggregates show up in the figures. The pamphlets, which are available to businessmen in a set of 19, or individually, trace the historical record of employment, salaries and wages, and shipments; the 1947 geographical distribution; size and distribution of establishments, production and shipments of individual commodities and classes of products in the last pre-war year, 1939, and in 1947.

Basing point legislation is up in the air again. Leader of the opposition to legislation which would offset a Supreme Court decision by making basing and zone price lawful, Rep. Wright Patman, is urging the senate to return its bill to committee, permit small businessmen to present evidence in opposition. Mood of the senate seems to be to pass the law with litle debate, send it to conference (the house already has passed a somewhat similar Act, the major difference being that the house bill would permit freight absorption only in those cases where the effect would not be to destroy or damage competition or tend to create a monopoly).

The federal aid to education bill, having become embroiled in a religious war, stands less chance of passage today than ever before. The senate would permit use of federal funds to transport and provide books for all pupils, whether in public or private schools; the Barden Bill, the house version, would deny use of any appropriated money for other than public schools.

Barden insists there is no religious bias involved and points to the "separation of church and state" principle. Cardinal Francis Spellman, No. 1 spokesman for United States catholics, labeled the bill anti-catholic and his words and following seem to have impressed a sufficient number of legislators to kill the house bill,

permitting the senate version to die on the vine, since compromise would seem impossible.

The Brannan farm bill may now be added to the list of congressional "unfinished business." House rejection of even a trial run, with only parts of the Agriculture Secretary's proposals in force, has killed it off for this year. Fatal objection was the basic notion of placing a high support price on storable commodities, thereby encouraging overproduction with the costs and consequences incalculable. Secretary Brannan wanted higher prices for farmers and lower prices for consumers (an accomplishment, one congressman commented, about on a par with discovery of perpetual motion.) Brannan has an easy solution: The government simply would pay the difference between the farm price plus handling, and the retail price.

For the guidance of its membership, the CIO isues a weekly chart on legislation, and a practical thing it is. Major policy bills of interest to the union are listed as: Bill. What it Does. Where it Is.What to Do. The Taft-Hartley Bill, naturally, takes top position. Under "What to Do," is the plain implication of surrender with a suggestion that is not at all subtle: "Give PAC $1. Get ready for 1950 elections." Once a lengthy listing, it has been thinned out to concentrate efforts on wage-hour laws, social security extension, FEPC, anti-poll tax, aid to education, ECA funds, "52-20 Club" extension.

No attempt will be made this year to advance the omnibus anti-depression measure which 18 senators and five representatives (all carrying the "liberal" tag) have put forth as the cure-all to unemployment and national economic ills. The project is not an Administration measure, yet it is largely a rewrite of Presidential messages to congress. Some republicans, but not many, have acepted co-sponsorship, but the backers know things must worsen greatly before the contemplated widespread deficit spending could win approval.

Apart from the omnibus measure is a bill to appropriate 100 million dollars for planning. It stands an excellent chance of passage; already has been indorsed by committees on both sides of the Capitol, but not docketed. With this amount of money, detailed plans could be prepared for public works aggregating 3 billion dollars. Should a real crisis develop, the plans can be dusted off, construction money provided and delays would be avoided. This time, congress will reverse the procedure of the past: government agencies will be required to submit specific programs before any money is appropriated. Heretofore, the funds were made available first, then agencies fought over precedence for their projects.

Not a single brick will be laid with the first appropriation to carry out the new low-cost housing, slum-clearance program. President Truman has asked congress to set aside $33,650,000 to get action started. And this is the start that will be made: 9.5 million dolars will be spent by the Census Bureau to conduct a housing census along with the 1950 population count; 4,000 new employees will be placed on the payroll in the Housing and Home Finance Agency.

The votes seem present, but the disposition absent, to pass a series of bills reducing or eliminating excise taxes,many of them of wartime origin and no longer defensible on their original basis. The White House wants the levies to remain but it is notable that many of the 144 excise tax repeal bills pending in the house are sponsored by members of the President's party. The senate has 36 bills to the same end in its files.

Except for senate action to cut the tax on alcohol permits, and a Presidential recommendation that excise tax on freight shipments be wiped out, there has been nothing more substantial than bill writing...and talk. Support is growing for the Mason Bill to tax the business earnings of tax-exempt corporations and organizations. It has been reckoned that such a law would bring in an amount matching that which now is received from the excises and would remove the President's objection that the present levies must remain until a new source is discovered.

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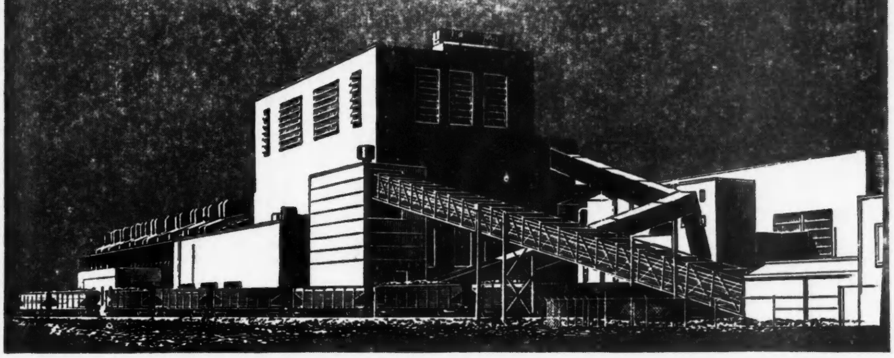
How Strong Are CORPORATE FINANCES?



By FREDERICK K. DODGE

One favorable aspect of the current recession is that on the whole it has done little to impair industry's working capital position. Rather in many cases, it has made for greater strength and liquidity, and this is important since frequently in the past, trouble in the economic field stemmed from, or was intensified by, lack of adequate working capital. A corporation may have up-to-date plants and an efficient working force, but if it lacks funds to carry on between the time materials are bought for processing and turned into cash at the other end of the line, it must halt or reduce operations.

There are few if any cases where businesses have been thus affected in recent months. Most of them have entered the recession stronger financially than ever before, and well able to withstand its stresses and strains. Though sales are lower and earnings slimmer, financial liquidity on the whole has not suffered; frequently it has improved in the wake of inventory liquidation, cautious buying policies and a desire to pay off debt. True, there have also been inventory losses. When prices are under pressure, these are unavoidable; but generally, reserves previously set up against such contingencies were sufficient to cover losses without impairment of the working capital position.

Thus we find that after slipping somewhat in the last quarter of 1948, the net working capital of corporations has again been rising, reaching a new peak at the end of the first quarter of $65.8 billion, up one billion dollars from the year-end, according to the quarterly analysis of the Securities and Exchange Commission. During the final quarter of last year, it had declined from $65.4 billion to $64.8 billion.

The latest rise is due to two factors: (1) A $2.7 drop in current liabilities (mainly notes and accounts payable) was only partly offset by a $1.7 billion drop in current assets (mainly notes and accounts receivable). (2) it is estimated that corporations invested some $3.9 billion in plant and equipment during the first quarter. To finance this expansion, they secured $1.2 billion from external sources—$1 billion from long-term borrowings and $200 million from the sale of new stock issues. Internal sources, that is depreciation accruals and retained earnings, provided the balance of funds needed for expansion.

This explains why cash assets declined during the first quarter. Cash in hand and in banks dropped to $23.4 billion from $24 billion though holdings of U. S. Government securities advanced slightly, to $14 billion from $13.9 billion. To the extent that cash

Current Assets and Liabilities of U. S. Corporations

(Billions of dollars)

	1948 Mar. 31	1948 June 30	1948 Sept. 30	1948 Dec. 31	1949 Mar. 31
CURRENT ASSETS					
Cash on hand and in banks	23.5	23.9	24.2	24.0	23.4
U. S. Government securities	13.7	13.0	13.4	13.9	14.0
Receivables from U. S. Government					
Other notes and accounts receivable	36.9	36.8	39.3	38.7	37.5
Inventories	45.7	46.3	48.2	48.5	48.5
Other current assets	1.5	1.6	1.7	1.6	1.6
Total Current Assets	121.4	121.7	126.8	126.7	125.0
CURRENT LIABILITIES					
Advances and prepayments, U. S. Government					
Other notes and accounts payable	34.3	34.1	36.4	37.1	34.6
Federal income tax liabilities	10.7	10.9	11.3	11.6	11.2
Other current liabiilties	13.7	12.8	13.6	13.1	13.4
Total Current Liabilities	58.7	57.8	61.4	61.9	59.2
NET WORKING CAPITAL	62.7	63.9	65.4	64.8	65.8

dropped, liquidity was slightly impaired, all the more since inventories held steady at $48.5 billion. In the overall picture, inventory liquidation evidently had not yet become a strong factor by the end of the first quarter, but on the other hand, it was the first time that there was *no increase* in inventories. Subsequent data will doubtless reflect intensified liquidation of business stocks which has been going on since.

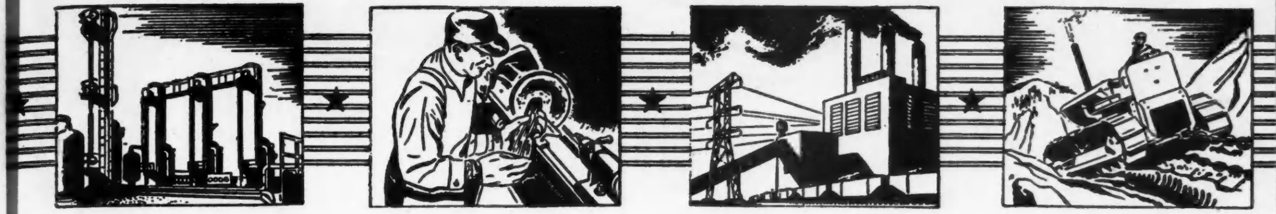
Besides the features mentioned, there have been few notable shifts in the components of working capital. We find total currents assets at the end of the March quarter at $125 billion, down $1.7 billion from the year-end; and total current liabilities at $59.2 billion, down $2.7 billion. Thus the current ratio, the relationship between current assets and current liabilities, widened to 2.11 from 2.05 at the end of 1948. The working capital position, in other words, has improved, and though cash holdings declined, liquidity has not much suffered since current liabilities also dropped. The ratio of cash and government securities to current liabilities remained virtually unchanged at 84%, a highly satisfactory coverage.

The overall picture thus remains one of exceptional financial strength. It confirms the findings of a recent survey by the National Industrial Conference Board to the effect that an adequate supply of working capital for 1949 and into 1950 is reported by all but a very few of the manufacturing companies canvassed; that if there is any dearth of capital, it relates to equity capital rather than working capital, a circumstance that has forced many organizations to rely more heavily on retained earnings than otherwise would be the case, particularly since at this time there is a general antipathy toward borrowing. Today's sources of working capital are largely confined to retained earnings, depreciation reserves, proceeds of inventory liquidation, lower accounts receivable, and perhaps tax refund claims in some cases. Few are inclined to rely on borrowing to carry them over seasonal humps of working (*Please turn to page* 500)

Statistical Summary of Recent Shifts in Corporate Working Capital

	Cash	Marketable Securities	Receivables	Inventories	Net Property	Net Working Capital	Current Ratio	Long Term Debt	Capital	Total Assets
	$ Million							$ Million		
Alpha Portland Cement										
June 30, 1949	$2.2	$3.1	$1.5	$2.6	$12.1	$9.1	7.0	......	$15.4	$24.1
June 30, 1948	2.0	4.0	1.5	2.5	11.4	8.2	5.0	......	15.4	22.7
American Car & Foundry										
April 30, 1949	12.6	1.2	30.7	59.4	62.6	46.7	1.8	$9.4 b	58.9	189.9
April 30, 1948	7.6	2.8	15.9	67.4	59.2	49.5	2.1	10.1 b	58.9	174.8
Armour & Co.										
April 30, 1949	34.4	......	71.2	183.1	122.8	148.2	2.1	148.5	70.3	482.1
May 1 ,1948	20.9	......	55.8	176.4	109.0	122.1	1.9	98.6	70.3	432.3
Atlas Powder										
June 30, 1949	3.9	3.0	4.4	5.6	11.7	13.6	5.1	2.8	16.6	33.3
June 30, 1948	2.8	1.3	5.1	7.4	11.8	13.2	4.9	3.0	14.6	33.2
Black & Decker										
June 30, 1949	1.2	3.4	3.0	7.9	2.9	11.7	3.9	3.0	1.9	19.5
June 30, 1948	1.2	.9	3.3	5.6	2.4	7.8	3.4	......	1.9	14.3
Container Corp.										
June 30, 1949	7.6	6.8	5.2	7.2	34.8	20.5	4.3	......	29.7	66.0
June 30, 1948	13.7	.1	6.1	9.0	30.8	20.5	3.4	......	29.8	64.1
Continental Baking										
June 25, 1949	7.5	......	1.7	7.7	38.2	11.4	3.1	14.8	25.4	56.1
June 26, 1948	7.5	......	1.8	9.5	33.9	10.8	2.3	14.9	24.2	59.4
Continental Steel										
June 30, 1949	2.3	1.4	1.1	4.9	6.3	7.6	4.6	......	7.0	18.1
June 30, 1948	2.2	2.2	.9	4.2	5.4	6.6	3.3	......	7.0	17.8
Crown Zellerbach										
April 30, 1949	9.3	3.2	16.7	35.2	84.6	52.9	5.6	20.0	51.8	167.3
April 30, 1948	8.2	1.0	15.3	34.9	79.9	45.4	4.2	20.1	57.6	155.7
Douglas Aircraft										
May 31, 1949	11.1	21.5	7.9	26.2	16.4	58.7	4.0	3.7	30.0	97.9
May 31, 1948	22.0 a	......	7.4	28.8	17.3	58.3	6.2	4.4	30.0	88.8
Devoe & Raynolds										
May 31, 1949	3.0	.1	4.3	8.1	5.9	11.5	3.8	3.0	7.9	22.2
May 31, 1948	2.9	.1	5.0	9.8	4.9	12.3	3.3	3.2	8.0	23.4
Endicott-Johnson										
May 28, 1949	5.3	......	10.0	45.8	16.7	39.1	2.9	......	27.5	81.7
May 29, 1948	5.9	......	13.3	42.6	13.5	43.0	3.3	......	27.5	77.3
Florence Stove										
June 30, 1949	1.2	......	1.3	6.0	4.6	5.2	2.6	......	3.7	13.8
June 30, 1948	1.6	......	2.4	5.0	4.4	5.2	2.3	......	3.7	14.1
Hercules Powder										
June 30, 1949	12.7	10.1	9.2	16.7	37.8	36.0	3.8	......	25.0	87.2
June 30, 1948	21.6	......	9.7	17.9	34.9	33.6	3.2	......	25.0	85.4
International Shoe										
May 31, 1949	3.6	.2	26.4	54.7	20.8	65.6	4.3	......	51.0	111.2
May 31, 1948	4.3	.2	32.2	45.9	20.9	64.2	4.5	......	51.0	109.2
Monsanto Chemical										
June 30, 1949	16.0	4.7	16.3	33.9	101.4	54.1	4.2	30.5	54.4	179.5
June 30, 1948	12.9	10.2	17.7	29.8	96.8	46.0	2.9	30.5	54.5	255.0
Pennsylvania-Dixie Cement										
June 30, 1949	3.2	.4	1.4	4.4	7.5	6.9	3.9	1.7	4.2	17.4
June 30, 1948	2.9	......	1.6	3.3	5.8	5.7	3.8	2.1	3.7	13.9
Wesson Oil & Snowdrift										
May 28, 1949	7.9	......	12.6	30.0	27.0	38.5	4.2	......	20.1	84.1
May 29, 1948	14.4	3.0	13.4	28.1	23.1	43.8	3.9	......	19.8	87.6
Clark Equipment										
June 30, 1949	7.3	3.0	3.5	10.7	9.2	18.8	4.3	6.0	12.7	35.8
June 30, 1948	5.4	......	5.0	12.0	6.6	15.1	3.0	1.6	11.7	29.1
U. S. Hoffman Machinery										
June 30, 1949	1.0	......	8.6	6.5	3.3	11.1	3.2	3.8	4.1	20.0
March 31, 1948	2.0	......	10.5	6.8	3.7	11.2	2.4	4.1	4.2	23.5

a—Includes marketable securities.   b—Of subsidiaries.



1949 Midyear Re-appraisals of Values, Earnings and Dividend Forecasts

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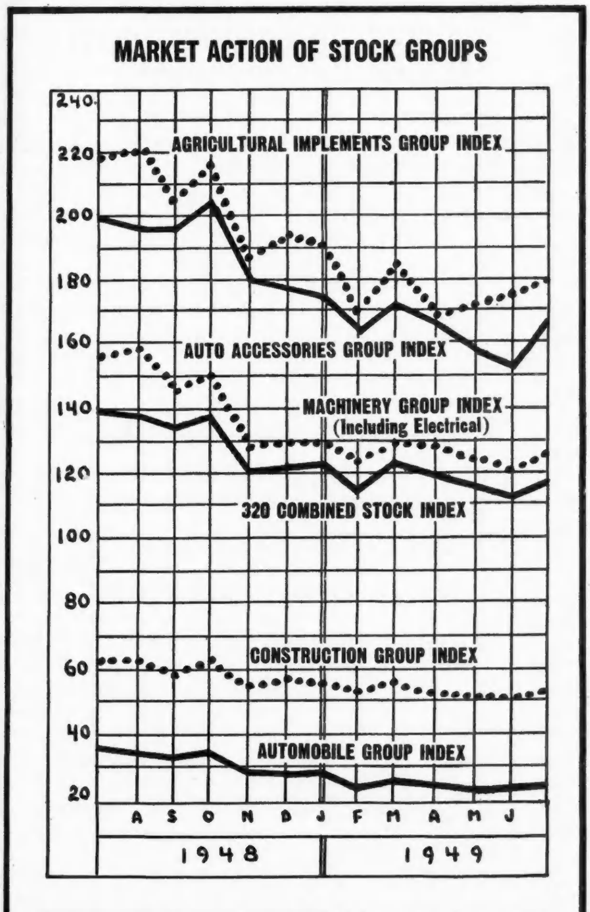
Prospects and Ratings for Building Shares, Motors, Motor Accessories, Electrical and Farm Equipments

Part III

As we cross the half-year mark, we find general economic activity heading further downward with relatively few strong spots remaining in the business picture. In the months past, readjustment has progressed a good deal with considerable acceleration in recent weeks, but the process obviously is far from completed. Naturally, what will happen during the second half of the year is therefore a matter of considerable conjecture and concern.

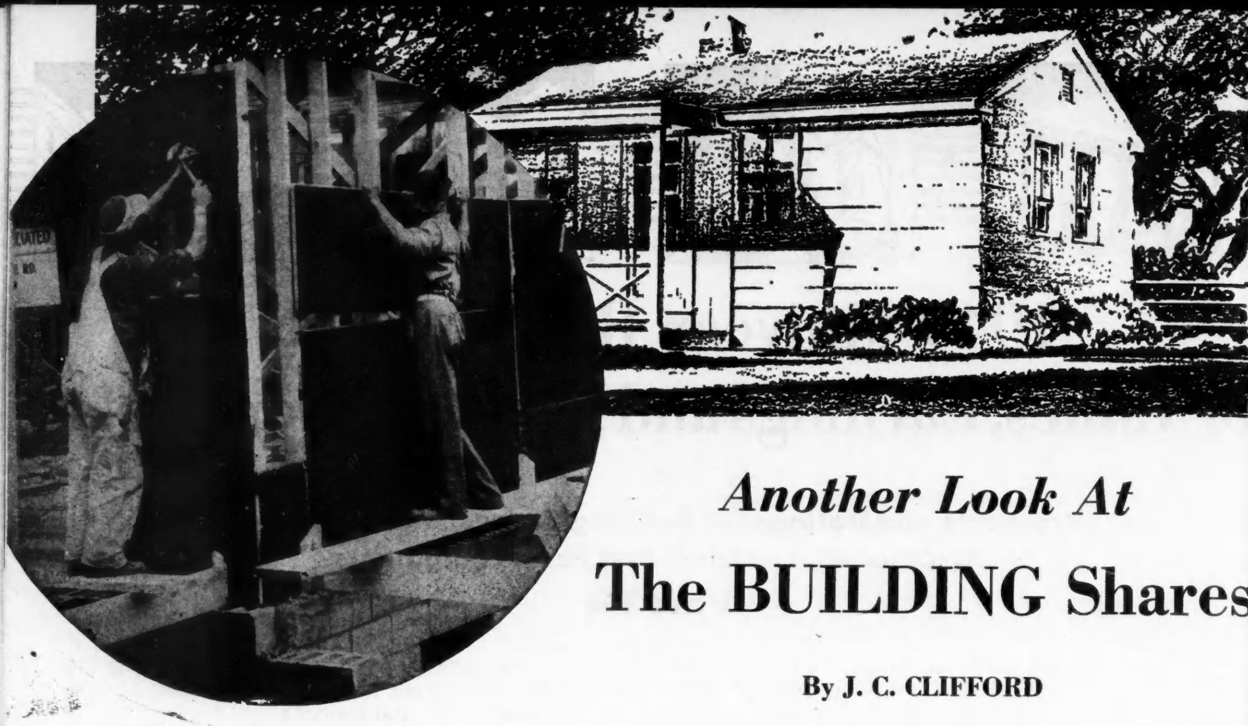


Some anticipate a further and protracted slump of sizeable proportions. Others feel that the bottom of the recession is coming into sight, that the business slide may come to a halt by year-end and reverse itself early in 1950. At this juncture, however, it would seem hazardous to attempt to set up any sort of a time table. We are still in the midst of transition and while there are a number of encouraging signs that for some industries the worst may be over, most traditional signposts continue to point downhill with varying force. Though in view of many cushioning factors there is good reason to believe that recession will hardly degenerate into depression, the most critical period is likely still ahead, with the prospect that things may get worse before they begin to improve.

For business as well as the investor, the months ahead thus may bring further and serious tests. To assist our readers in arriving at sound investment decisions under changing conditions, The Magazine of Wall Street presents its 1949 Mid-Year Re-Appraisal Series with particular emphasis on the readjustment progress and outlook for leading industries, and the companies in these industries; the impact on them of price deflation and shrinking volume, what it will mean to profits and dividends, and potential future market action of their securities.

The key to our ratings of investment quality and current earnings trends of the individual stocks—the last column in the tables preceding our comments—is as follows: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal. The accompanying numerals indicate current earnings trends thus: 1 — Upward; 2 — Steady; 3 — Downward. For example, A1 denotes a stock of high grade investment quality with an upward earnings trend.

Stocks marked with a W in the tabulation are recommended for income return. Issues regarded as having above average appreciation potentials are denoted by the letter X. *Purchases should of course be timed with the trend and investment advice presented in the A. T. Miller market analysis in every issue of this publication.*



Another Look At
The BUILDING Shares

By J. C. CLIFFORD

Notwithstanding record volume of construction since the war, demand for shelter — one of three basic human wants — remains extremely urgent. This fact is readily demonstrated by continued large volume of residential building in the face of high costs. Although prices of new houses have been lowered, the average in most areas still is well above pre-war figures. Need for schools, hospitals and other public buildings is growing rather than diminishing. On an overall basis, therefore, it seems fair to appraise the outlook for building supply industry as promising.

As in many other industries, however, buyers are becoming increasingly discriminating. Hence it should not be assumed that, because demand still is far from satisfied, producers of building materials can look for the measure of prosperity that characterized operations in 1947 and 1948. Normal competitive conditions rapidly are being restored. This means that extraordinary profit margins that had prevailed in many lines — notably lumber and plumbing materials — no longer are available. Marginal, high-cost producers are dropping out as consumers turn to recognized sources for supplies.

In appraising potentials under today's conditions, therefore, it is important to take into consideration not only the prospect for a reasonably high level of activity but also the ability of manufacturers to operate profitably under keenly competitive conditions that seem likely to prevail now that consumers no longer need to scramble for supplies. Allowance must be made for possibility of declining national income that may necessitate deferment of home purchasing even though need for housing still should be urgent. Precedent suggests that residential construction tends to slacken while unemployment is rising, and economic developments point to the likelihood of more curtailment in industrial production for some time.

Construction contracts, housing starts and sales of building supplies have held up better this year than had been anticipated six to nine months ago. Outlays for public works, which had been expected to expand as costs began to recede, have exceeded earlier forecasts with the result that total new construction in the first six months this year registered an indicated 4 per cent increase over the first half of 1948 despite the fact that residential building lagged slightly.

This trend toward emphasis on public works and public housing projects is expected to continue, and allowance should be made for this factor in appraising prospects of individual suppliers of materials. That is to say, demand for cement, bricks, mass produced plumbing and similar materials used extensively in apartment construction and in public institutions should remain in relatively better demand than products made chiefly for small residences. In this connection, it is interesting to note that lumber again has become abundant and that scores if not hundreds of small, marginal lumber mills have shut down. Earnings and dividend prospects of representative companies supplying materials have been appraised in the accompanying tabulation on basis of currently prevailing conditions as outlined here.

Effects of Housing Legislation

Possible effects of recent housing legislation must be considered in connection with the outlook for building. Will the Housing Act of 1949 providing for expenditure of more than $300 million annually to aid in construction of 810,000 publicly financed dwelling units in the next six years stimulate or retard private residential construction? Although it is generally agreed that this project would be too small to prevent a considerable drop in building if economic conditions should deteriorate rapidly and scarcely could bring about boom conditions in any event, nevertheless there is a conflict of opinion over possible beneficial effects on the building industry.

From a near-term viewpoint it would appear rea-

Position of Leading Building Material Stocks

	1948 Net Sales ($ mil.)	1948 Net Margin	1948 Net Per Share	Interim Reports 1949 Net Sales ($ mil.)	Interim Reports 1949 Net Margin	Interim Reports 1949 Net Per Share	Est. 1949 Net	Recent Price	Div. 1948	Div. Yield	Investment Rating	COMMENTS
Alpha Portland Cement	$19.3	14.2%	$4.66	$21.1 c	15.9%	$5.68 c	$6.00	$29	$2.00	6.9%	C1	With demand being well maintained and little indication of price concessions, earnings should continue favorable and support $2 dividend.
American Rad. & S. S.	236.1	11.1	2.57	89.1 k	6.7	.59 k	2.25	12	1.50	12.5	C+2	Reduced volume and narrower margins point to moderately lower earnings this year, but ample coverage for regular dividend appears assured.
Bruce, E. L.	23.9	8.3	7.47	18.2 s	6.7	4.55 s	5.00	15	2.62	17.5	B3	Keener competition in hardwood lumber and slackening demand for this flooring expected to have adverse effect on profits possibly imperiling dividend.
Celotex	54.2	12.5	7.21	17.6 l	2.9	.41 l	2.25	15	1.75	11.7	B3	Sales well maintained by high rate of maintenance work, but pressure growing for price cuts. Recent dividend cut reflects lower earnings trend.
Certain-teed Products	51.5	12.8	4.01	19.6 k	9.7	1.14 k	2.50	11	1.30	11.8	C3	Prospect of lower volume and narrower margins points to reduced earnings and more conservative dividend policy. Competition growing in roofing materials.
Crane Co.	222.8	7.0	6.43	45.2 s	......	n.a.	5.00	25	3.00	12.0	B3	Further moderate setback in sales and earnings indicated, but strong competitive position and capable management point to maintenance of fair dividend.
Devoe & Raynolds "A"	47.3	5.6	4.41	19.7 k	2.2	.82 k	2.50	17	2.60	15.3	B3	Price reductions and smaller volume of sales suggest moderate drop in earnings but curtailment should not be serious enough now to imperil regular dividend.
Flintkote	81.3	9.5	5.86	12.8 s	5.7	.51 s	3.00	25	3.00	12.0	B3	Partly due to adverse effects of strike in asbestos mines, earnings likely to recede sharply, but not enough to threaten regular dividend.
Holland Furnace	41.0	9.8	4.48	n.a.	......	.68 k	3.50	21	3.00	14.3	B3	With raw materials costs declining, prospect for price cuts to stimulate sales improving, but lower earnings seem likely. Dividend seems secure.
Johns-Manville X	173.5	8.9	5.22	76.2 k	7.6	1.94 k	4.25	33	2.00	5.3	A2	Earnings well maintained despite higher costs incident to Quebec strike, and 1949 results expected to compare favorably with last year. Dividend secure.
Lehigh Portland Cem. X	33.4	14.7	5.96	n.a.	......	6.83 c	6.50	37	2.00	5.4	C+1	Continued good demand in prospect with indications pointing to favorable comparison with last year. Possibility of slightly more liberal dividend.
Lone Star Cement X	54.6	14.2	8.18	29.1 k	14.5	4.46 k	9.00	61	4.50	7.4	B1	Domestic sales outlook promising with good earnings trend, but South American operations appear less reassuring. Dividend coverage seemingly adequate.
Masonite	36.5	19.3	11.71	21.3 s	13.0	4.08 f	4.50	45	3.25	7.2	B3	Increased availability of hardwood tending to spur competition and cut profit margins, but diversification in products should sustain coverage for dividend.
National Gypsum	68.1	11.7	3.60	27.9 k	8.6	1.05 k	3.00	14	1.00	7.1	C+3	Despite slackening sales, volume likely to hold well above prewar total and net profit expected to recede only moderately from 1948. Conservative dividend secure.
Otis Elevator X	92.2	13.1	5.85	23.3 s	14.7	1.67 s	5.70	31	2.00	6.5	B2	Orders reasonably well maintained despite slackening in industrial plant construction. Renovation work satisfactory. Liberal dividend seen.
Penn.-Dixie Cement	18.5	14.6	4.86	7.9 k	13.4	1.78 k	5.25	21	1.50	7.1	C+1	Earnings aided by heavy public works projects. Cash strengthened by exercise of warrants. Liberal dividend in view despite new plant acquisition.
Pittsburgh Plate Glass X	280.0	10.7	3.65	140.4 k	11.1	1.72 k	3.50	33	1.75	5.3	A2	Good demand evident for glass, but narrower margins on paints indicated. Only small drop in earnings expected. Year-end extra dividend is possible.
Pratt & Lambert	n.s.	......	4.73	n.a.	......	n.a.	4.00	30	3.00	10.0	B3	Keener competition points to narrower margins, but decline in earnings not expected to prove serious. Recently reduced dividend should be covered.
Ruberoid	57.5	9.0	11.80	22.5 k	7.5	3.86 k	7.00	47	3.25 b	6.9	B3	Despite seasonal pickup in sales and profits, decline in earnings from 1948 peak indicated. Conservative management likely to keep generous dividend.
U. S. Gypsum	148.6	16.6	15.04	18.2 s	16.7	3.24 s	13.00	99	6.00	6.1	A3	Regarded as leader in industry, profit margins expected to hold and setback in earnings should be moderate. Dividend this year expected to be equal of 1948.
Walworth	42.4	6.2	1.95	17.6 k	3.5	.46 k	1.00	7	.85	12.1	B3	With industrial demand for valves and fittings declining, earnings likely to reflect smaller sales volume. Further dividend conservatism possible.
Yale & Towne	65.2	3.3	4.17	15.1 s	1.5	.46 s	2.50	21	1.00 b	4.8	B3	Keener competition and unfortunate experiences in new products contributing to less satisfactory showing. Strong financial position may sustain dividend.

b—Plus stock.
n.s.—Not stated.
c—12 months to June 30.
k—First six months.
l—6 months to April 30.
s—3 months to March 31.
n.a.—Not available.
f—9 months to May 31.

sonable to look for comparatively little effect from Government operations. Considerable time probably will elapse before appropriations can become effective. As a matter of fact, the Federal Housing Administration estimated no more than 50,000 units might be started in the first fiscal year of the project. This represents a small item in relation to an estimated total of 800,000 units that may be started in 1949 by private builders. Increase in construction is contemplated to an annual rate of 135,000 to 200,000 units, however, if need should develop, and such a volume could have an effect on private residential construction. Some observers feel that private builders may fear competition from this source and curtail operations later this year or in 1950 pending further study of conditions. Other builders may wait for Government contracts for subsidized housing with the result that volume of private residential construction may suffer early next year if potential buyers also should show an inclination to wait for construction of government financed homes.

Favorable Immediate Impacts

Regardless of long range influences of recently enacted legislation, the imediate effect appears to have been favorable. Real estate dealers in Metropolitan areas report an exceptional spurt in residential sales in the last month or two after a rather disappointing early spring showing. Belated demand is attributed partly to growing realization that housing legislation scarcely could have any important effect on the situation this year and that chances were slim of any appreciable further decline in costs. Builders point out that buyer resistance, which began to manifest itself on an important scale around the latter part of November last year, was due to expectations of a substantial downward readjustment in housing costs rather than to lack of funds. Hence, the pickup apparently reflects growing belief that anything approaching a collapse of the market for new homes is improbable. Potential buyers have ample funds with which to finance new homes, it is generally agreed, especially on basis of liberal terms obtainable under Government regulations.

Despite fears expressed early in the year, building construction has held up better than expected. Government estimates put new construction projects for the first six months at about 4 percent ahead of the total for the similar period of 1948 and on basis of current indications, the 1949 total is expected to reach $19 billion, compared with $17.7 billion in 1948. Maintenance expenditures are expected to compare favorably with an indicated total of about $8 billion last year. Accordingly, unless activity slackens more than seasonally in the final quarter, total construction volume for 1949 should compare favorably with last year's record of $25.7 billion.

Expansion of Public Works

This showing will be accomplished by more than normal expansion in public works. This classification registered a 37 percent improvement in the first half year while private outlays fell about 5 percent. Expenditures for schools, hospitals and other institutions still are rising and economists anticipate a gradual increase in public works construction to more than 30 percent of the total from an indicated 27 percent this year and 24 percent last year. Companies whose operations are concentrated in supplying materials going into large projects in this category may be expected to fare better than some others in coming months. Those which are chiefly dependent on industrial expansion, on the other hand, may not do so well as in 1948.

Although the recent pickup in shipments of major suppliers may be attributed to the fact that distributors allowed inventories to decline to abnormally low levels last winter and in the first quarter this year, demand for housing materials has exceeded earlier forecasts. June residential starts reached a high for the year at 100,000 and preliminary figures for July indicated a normal increase. The seasonal pattern calls for a peak in activity in August, suggesting that housing starts in the three summer months may range upward of 300,000, which would be quite a satisfactory showing considering general business conditions and strong buyer resistance to houses in the $12,000 to $15,000 range and higher.

As a result of increased activity in the last two or three months — stimulated incidentally by exceptionally favorable weather conditions in most parts of the country — manufacturers' inventories have been reduced to manageable proportions and earnings prospects have become much brighter than in April and May, when it seemed possible that losses might be sustained on slow moving goods. With dealers' inventories still at abnormally low levels and warehouses no longer overstocked, indications point to a moderate upturn in manufacturing activity.

Building Hardware Field

The management of American Radiator & Standard Sanitary Corp., for example, whose operations probably are typical of the plumbing and heating divisions of the industry, recently announced that some idle plants might be reopened later in the year. Stocks of finished materials reached such large proportions in April and May that several plants had to be closed, but the low point in sales and earnings appears to have passed, it was explained, and shipments showed an encouraging upturn in June and July. This trend reflects the return to a normal seasonal pattern. Distributors drastically reduced inventories last winter when it became evident that supplies were becoming plentiful and that it no longer was necessary to order equipment months ahead of projected use. Accordingly, second and third quarter results of representative building suppliers may compare favorably with corresponding periods last year, while the fourth quarter likely will reflect a seasonal slackening in demand. Due to pressure on the part of distributors for reduction in inventories in the first quarter, earnings of major building materials companies dropped sharply. American Radiator's sales decline in the first half was estimated at 17 percent due largely to a poor first quarter.

As mentioned previously, in appraising the outlook for companies in this industry it is well to take into consideration competitive efficiency. Advance in labor cost has been so pronounced since the war that managements were compelled to adopt labor saving machinery wherever possible to hold down prices of finished products. The extent to which progress in this direction (*Please turn to page* 500)

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THE MOTORS

— AS "THE BIG THREE" BATTLE FOR THE PREWAR SHARE OF OVERALL BUSINESS!

By GEORGE L. MERTON

With the half-way mark of 1949 left well behind, the automobile industry continues to furnish evidence of an almost amazing vitality which augurs well for at least the short term earnings and dividend outlook.

Further, these accomplishments suggest that this dominantly important manufacturing business should be able to offer strong resistance to the inevitable readjustment of its sales and sales potential in the period ahead once production is brought into balance with demand and when diminishing purchasing power will mean the return of a competitive race every bit as intense as in the prewar era.

It is because of this major element of longer term uncertainty that investors must exercise keen discrimination in their selections. If precedent has not entirely outlived its usefulness, then the "Big Three" (General Motors, Chrysler, Ford) will exhibit the strongest staying powers, whereas the independents may find the road a rocky one in their scramble for the remainder of the market, estimated at between 15% and 18%, including an allocation of about 4% for the comparatively new and untried Kaiser-Frazer, which has faltered after holding the lead in independent registrations in 1948.

Also, investors, especially at the present time, must differentiate carefully between builders of passenger cars, who also have some balance in light commercial vehicles, and companies primarily engaged in the heavy-duty truck and bus line, where deferred requirements have been fully satisfied.

Thus, while some of the latter including White Motor and Mack Trucks, for example, have been able to maintain themselves in a rather comfortable financial condition, thanks to large profits of earlier years, they are now operating in an oversaturated market which indicates a sharp decline in unit sales, gross revenues and net income for 1949 and some time beyond. By and large, therefore, such stocks should be avoided, and even where special circumstances would seem to prevail, the risk is great.

Statistically, the basic 1949 situation in the industry is eminently favorable. This is as true of earnings and earnings prospects as of production and sales.

Only the most unexpected in the way of a severe sales slump, production stoppages, or obstacles at plants, stemming from labor disputes or other causes, will prevent the industry from surpassing the old production record of 5,385,420 cars and trucks in 1929 when there were three shifts at work compared with the present, widespread nine-hour shift at most plants, with overtime on Saturdays.

Record 1949 Output

Through the end of July the industry turned out a total of more than 3,500,000 cars and trucks. In June, American producers established two all-time records. More passenger cars, motor trucks and motor buses were built and sold than in any other June of automotive history. In addition, more motor vehicles were sold in the domestic market than in any previous single month.

With over-all output for June placed at 593,640 cars, trucks and buses, the May total was exceeded by roughly 23%, while production of 2,994,284 vehicles in the first half of the current year represented a gain of 20% compared with the corresponding 1948 period.

Canada included, the July output is estimated at 601,959 units, with indications that the old high record monthly aggregate of 663,811 vehicles of April, 1929, was surpassed during August, 1949.

Meanwhile, production schedules indicate that the present high production rate will show little recession until well into the fourth quarter.

From virtually every aspect, therefore, for this year at least, the outlook for the industry remains bright, particularly since manufacturers are rapidly adjusting to buyers' increasing preference for cheaper cars which should go far toward tempering the seasonal decline in demand which appears slated to come this fall.

In order to obtain a clear picture of the industry's probable earning power for 1949, one must reflect a bit on the mixed trends of the first quarter. Shipments from factories increased by about 7.5% over the corresponding three months of 1948, largely because of the gain of some 13% in the passenger car division. However, sales of trucks declined more than 7%, while bus sales were down almost 60%. With the exception of Kaiser-Frazer, which had accomplished so much in the independent field in 1948, sales of all passenger car producers established gains so that combined net earnings were up more than 30%. Generally, the industry trend has not changed importantly since then, although complete figures are not yet available. Second quarter (*Please turn to page* 499)

Statistical Position of Automobile and Truck Manufacturers

	1948			Interim Reports 1949			Est.				Invest-	
	Net Sales $ mil.)	Net Margin	Net Per Share	Net Sales ($ mil.)	Net Margin	Net Per Share	1949 Net	Recent Price	Div. 1948	Div. Yield	ment Rating	COMMENTS
Autocar	$30.9	1.3%	$.59	$11.6 k	....	def$.57 k	def.	$6	$.25	4.1%	C3	Dividend resumption not yet in sight as company shows 6 months' loss of $279,848 against $0.30 share profit in first half of 1948.
Chrysler X	1,567.9	5.7	10.25	401.2 s	4.7%	2.15 s	$9.50	49	4.00	8.2	B2	Reasonably priced on $1.25 quarterly dividend, which will be earned almost twice over in 1949. New, low-priced Plymouth meeting good reception.
Diamond T	37.5	3.0	2.64	11.5 k	1.2	.32 k	.80	11	1.50	13.6	C+3	Meeting severest kind of competition in sale of heavy duty trucks. Earnings on downgrade and dividends may be vulnerable.
Federal Motor Truck	14.1	0.9	.27	n.a.	....	n.a. s	.10	4	.40 p	10.0	B3	Has lost ground to other truck builders despite efforts of present management to stimulate new business. Early restoration of dividends unlikely.
Fruehauf Trailer	84.7	6.5	4.16	19.1 s	4.2	.57 s	2.00	17	1.25	7.4	B3	Has largely discounted the indicated decline in 1949 profits. Dividend ($0.50 quarterly) not altogether safe, but reasonably so, barring late adjustments.
General Motors X	4,702.0	9.4	9.72	2,877.7 k	10.5	6.76 k	10.00	59	4.50	7.6	B2	Sales continue to establish new highs and earnings this year should equal those of 1948. Dividends secure at $1.25 quarterly for the foreseeable future.
Hudson Motor Car	274.7	4.8	7.28	n.a.	....	1.93 s	6.00	12	.70	5.8	C2	Liberal dividend policy indicated by company's present substantial earning power. Extras may continue to supplement regular dividend of $0.25 quarterly.
Kaiser-Frazer	341.6	3.0	2.27	n.a.	....	def1.27 s	....	5	Nil	....	C3	Has not been able to hold its sales position in independent field. Dividends improbable.
Mack Trucks	109.2	2.1	1.56	17.5 s	....	def.34 s	....	11	1.50 p	13.6	B3	Continues to operate in the red because of production slump in heavy truck field. Dividend resumption uncertain.
Nash-Kelvinator	302.9	6.6	4.64	280.2 a	7.2	4.66 a	5.00	12	1.40	11.6	C+2	Somewhat handicapped by diversified operations which have not held up as well as automotive division. However, earnings running well above $0.35 quarterly dividend.
Packard Motor	232.0	6.5	1.01	111.2	5.6	.32 k	1.00	4	.35	8.7	C+2	Not especially attractive, even as speculation, but 1949 dividends could exceed the $0.35 paid in 1948. Competition growing in higher-priced car field.
Reo Motors	38.3	0.3	.23	n.a.	....	def1.23	def.	9	2.37 p	26.3	C+2	Prospects improved by new Government contract for trucks, but this will not be reflected in 1949 operations which are in red. Dividends remote.
Studebaker	383.6	5.0	8.12	283.2 k	4.9	4.98 k	8.00	20	1.75	8.8	C+2	Increased ($0.50 quarterly) dividend is being covered by a wide margin in 1949. Year-end extra is possible.
Twin Coach	20.6	6.4	0.02	n.a.	....	def k	def.	5	Nil	....	B—3	Lost $417,563 in 6 months vs. $664,780 net in like 1948 period. Transit company problems curtailing bus orders. Dividend resumption seems far off.
White Motor	97.8	5.1	4.98	18.9	....	.... s	1.00	14	1.45	10.4	B3	Strong sales resistance being encountered in both truck and bus lines, and with earnings down, dividends may require curtailment.
Willys-Overland	175.4	3.7	2.18	....	....	.94 a	1.75	5	Nil	....	C+2	Earnings receding from the $2.18 a share of the 1948 fiscal year. Dividends hardly possible because of large plant requirements.

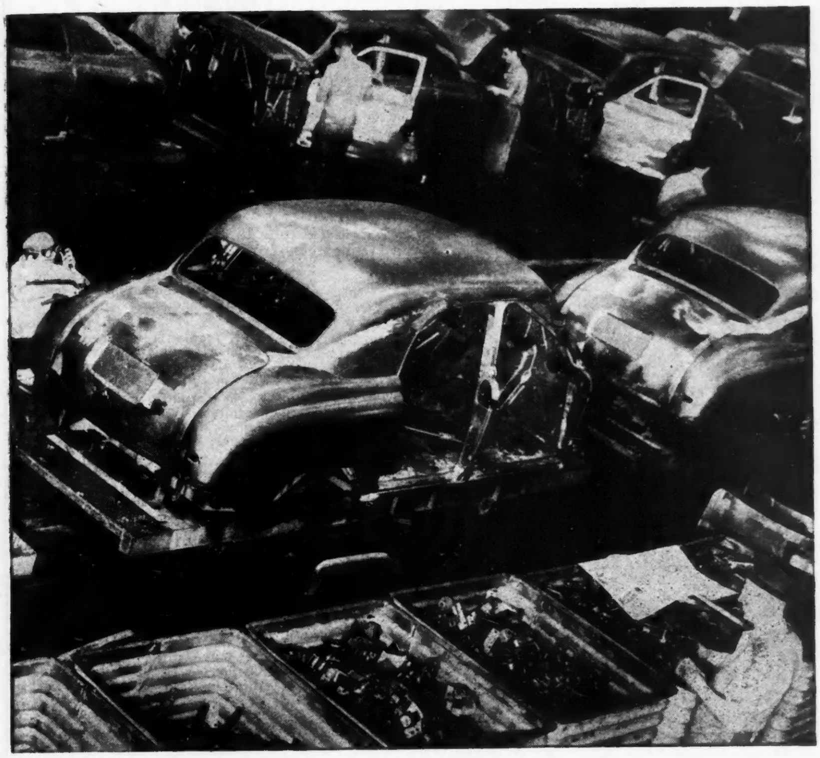
n.a.—Not available.
a—9 months ended June 30.
k—First six months.
g—6 months to March 31.
s—3 months to March 31.
p—No dividend paid to date in 1949.

To What Extent Have

MOTOR ACCESSORIES

Discounted Lower Earnings?

By GEORGE W. MATHIS

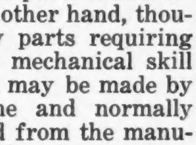


In a free enterprise economy "the race is to the swift." Nowhere is this proverb more clearly illustrated than in the field of automobile parts manufacturing. Competition certainly is the "life of trade" in the scramble for a portion of the vast domestic motor car business. In the accessory industry normal competitive conditions have returned. The result is that profit margins and earnings once more are being governed by usual factors —chiefly, effective cost controls and productive efficiency. This fact accounts in large measure for a wide variation in results coming to light in recent interim statements.

Although total volume of parts production remains at an exceptionally high level, marginal producers are finding that they no longer can "name their own prices" for urgently needed supplies. Car and truck manufacturers are demanding that quotations be reduced to lowest possible figures. Moreover, in the replacement business, distribution costs have increased, dealers' shelves have been filled and in this area, too, competitive conditions have returned. Consumers are demanding brand name products. All in all, profit margins are becoming narrower as production costs rise and promotional expenses increase. Adverse effects of keener competitive conditions are being felt to the greatest extent by smaller and less efficient manufacturers. Through intensive mechanization of production, stronger companies have been able to hold down costs and to strengthen their competitive position.

Aside from the usual factors to be watched in appraising manufacturing companies, it is important in the accessory business to evaluate essentiality of the product as well as degree of competition likely to be encountered. That is, certain functional parts such as transmissions, axles, brakes, starters, etc., usually are standardized in most car models and are purchased consistently from the same parts manufacturer. On the other hand, thousands of tiny parts requiring no particular mechanical skill in production may be made by almost anyone and normally are purchased from the manufacturer quoting best prices. Recent earnings statements indicate that profit margins have lost greatest ground among companies of the latter sort which have been compelled to cut prices to retain business.

Diversification also is important in leveling off wide variations in earnings. It is important, however, that unnecessary merchandising and distribution problems be avoided in expanding a line of products. Diversification may prove a headache if attempted simply for the sake of adding new products in unfamiliar fields. As an example, F. L. Jacobs & Co. lost large sums in a venture in automatic washing machines after the war. This division recently was sold to a manufacturer experienced in distribution of household appliances. Borg-Warner, on the other hand, has successfully engaged in manufacture and distribution of household appliances, including refrigerators, electric ranges, etc., as well as a variety of automotive parts.



Reference to the accompanying tabulation showing interim earnings statements and other information may throw light on profits

Statistical Data on Leading Automobile Parts and Accessories Companies

	1948			Interim Reports 1949			Est. 1949					
	Net Sales ($ mil.)	Net Margin	Net Per Share	Net Sales ($ mil.)	Net Margin	Net Per Share	Net Per Share	Recent Price	Div. 1948	Div. Yield	Investment Rating	COMMENTS
American Bosch X	$19.4	5.5%	$1.53	$13.8 e	8.2%	$1.01 e	$2.25	$8	$.75	9.4%	C+1	Increased operating efficiency under new management aiding earnings recovery. Armament contracts add volume. No change in $1 annual dividend seen.
Bendix Aviation	162.5	6.9	5.33	50.2 s	4.1	.96 s	5.00	30	3.00	10.0	B2	Earnings prospects adversely affected by prolonged strike which diverted considerable business to competitors. More conservative dividend indicated.
Bohn Alum. & Brass	35.5	2.7	2.76	n.a.	....	def2.34 k	def.	24	1.00	4.2	B3	Inventory losses retarding earnings recovery, and competition remains keen. Margins seem unlikely to improve much. Dividend likely to remain conservative.
Borg-Warner	309.3	9.6	12.43	78.6 s	8.5	2.80 s	9.00	46	4.50	9.8	B3	Prospect for auto parts business promising with growing demand for automatic transmissions, but appliance lines are feeling effect of keener competition.
Bower Roller Bearing X	22.3	13.4	6.64	n.a.	....	2.69 k	5.50	30	3.00	10.0	B3	Earnings likely to decline moderately in reflecting slackening sales volume and pressure for price reductions, thus suggesting conservative dividend rate.
Briggs Mfg.	265.9	4.0	5.40	69.6 s	.7	.24 s	3.50	24	2.50	10.4	C+3	Rising wage costs and pressure for price reductions tending to depress profit margins. Materials costs down. Extra dividend seems less promising.
Briggs & Stratton X	24.1	13.7	5.53	n.a.	....	2.83 k	5.00	22	2.75	12.5	B—2	Moderate drop in sales and earnings indicated, but coverage appears adequate for conservative dividend. Competition keener in gasoline engines.
Camp., Wyant & Cann.	28.6	6.9	5.71	9.01	5.3	1.17 k	2.50	18	2.50	13.9	C+3	Reduced volume and high labor costs tending to depress margins. Earnings decline in prospect. Lower raw materials costs needed to sustain margins.
Clark Equipment X	74.5	7.3	10.24	n.a.	....	3.56 k	8.00	27	2.00 b	7.4	B—3	Profit margins being well sustained despite slackening in sales and keen competition in truck division. Good chance of continuing extra dividend.
Cleveland Graphite Br. X	29.3	10.5	4.60	15.6 k	10.4	2.37 k	4.50	24	1.80	7.5	B—2	Pressure for price cuts on competitive items threatens margins. Good first half results strengthen finances but dividend may remain conservative.
Collins & Aikman	33.1	1.6	.92	n.a.	....	def.45 s	.50	16	1.00	6.2	B—3	Competition from new types of auto seat covers tending to curtail upholstery sales and to hurt margins. Dividend just been passed.
Dana Corp.	125.5	8.9	4.30 a	80.8 l	7.6	2.33 l	3.00	10	.60	6.0	B3	Profits holding up well despite drop in sales and long established trade position is favorable factor. Continuance of liberal dividend likely.
Eaton Mfg.	128.1	8.6	6.15	54.7 k	8.4	2.57 k	5.00	25	3.50	14.0	B3	Decline in earnings attributed to drop in truck components. Keener competition in prospect. More conservative dividend is possible.
Electric Auto-Lite X	210.1	5.8	8.16	106.9	....	2.40 k	6.00	37	3.00	8.1	B3	Inventory losses on raw materials in battery division adverse factor, but outlook improved for remainder of year. Dividend may hold $3 rate.
Electric Storage Battery	105.5	5.7	6.67	19.3 s	....	n.a.	4.00	40	3.00	7.50	B3	Sales slump in replacement business and inventory losses on raw materials having adverse effect on earnings, but not enough to imperil dividend rate.
Hayes Mfg.	25.9	12.6	3.09	11.6 f	9.3	1.02 f	1.50	6	.75	12.5	C3	Higher costs and narrower margins tending to undermine earnings, but regular dividend rate appears well protected for intermediate term.
Houdaille-Hershey	52.2	5.2	2.95	n.a.	....	1.51 k	3.00	10	1.00	10.0	C+2	Upward price revisions and greater manufacturing efficiency contributing to improvement in profits, but dividend likely to be conservative.
Kelsey-Hayes "B"	71.3	5.2	6.03	20.1 s	7.2	2.32 s	7.00	15	1.50	10.0	C+1	More abundant raw materials and use of mechanized equipment improve profit margins. Earnings compare favorably with 1948. Dividend secure.
Midland Steel Products	57.4	10.2	10.66	n.a.	....	2.03 k	5.00	20	3.75 a	18.7	C+3	Elimination of premiums on steel and continued large volume output tend to sustain profits. Somewhat less generous dividend in prospect.
Motor Products	46.2	6.2	7.33	....	....	5.64 m	6.75	20	2.50	12.5	C+3	Conditions becoming more competitive in automotive as well as in Deep-freeze products, but earnings may not be seriously hurt. Dividend secure.
Motor Wheel	58.3	5.9	4.08	13.6 s	4.8	.78 s	3.00	17	2.00	11.8	C+3	Pressure for price concessions may offset benefits of lower costs on raw materials. Moderate drop in earnings indicated, but dividend seems covered.

a—Adjusted.
b—Plus stock.
c—11 months.
e—24 weeks ended June 19.
f—9 months ended June 30.
k—First six months.
l—9 months to May 31.
m—9 months to March 31.
n—6 months to March 31.
p—9 months to April 30.
s—3 months to March 31.
n.a.—Not available.

trends under competitive conditions. Midyear reports to stockholders disclose adverse effects of a decline in replacement parts business and of disruptions in normal production due to labor troubles. Prolonged dispute between Bendix Aviation management and CIO-UAW employees, for example, left its imprint on operations for the June quarter. Some of Ford Motor Company's suppliers were troubled with backing up of shipments while former's widespread manufacturing plants were idled by strike. Sharp drop in net profit of Hayes Manufacturing reflected in part the shift by Willys-Overland of its station wagon body business from Hayes to Briggs Manufacturing. Muskegon Motor Specialties saw its net profit for the first six months drop to $95,000 from more than $441,000 in corresponding period last year.

Earnings of Standard Steel Spring, one of the leading bumper manufacturers, were higher this year, and this showing reflected in part a style trend toward use of larger bumpers, contributing to higher unit prices and wider margins, as well as improvement in operating efficiency gained from increased plant mechanization. This company has come to be regarded in recent years as one of lowest cost producers. Cleveland Graphite Bronze also showed the benefit of good productive efficiency in a sizable earnings rise, but management called attention of stockholders to evidence of keener competition in the second quarter and the prospect of narrower margins in second half of year. Federal Mogul, small but efficient manufacturer of bearings and bushings, experienced successful first six months. These examples emphasize diverse earnings trend in the industry and illustrate the need for a high degree of selectivity in stock commitments in this group.

Importance of Product Types

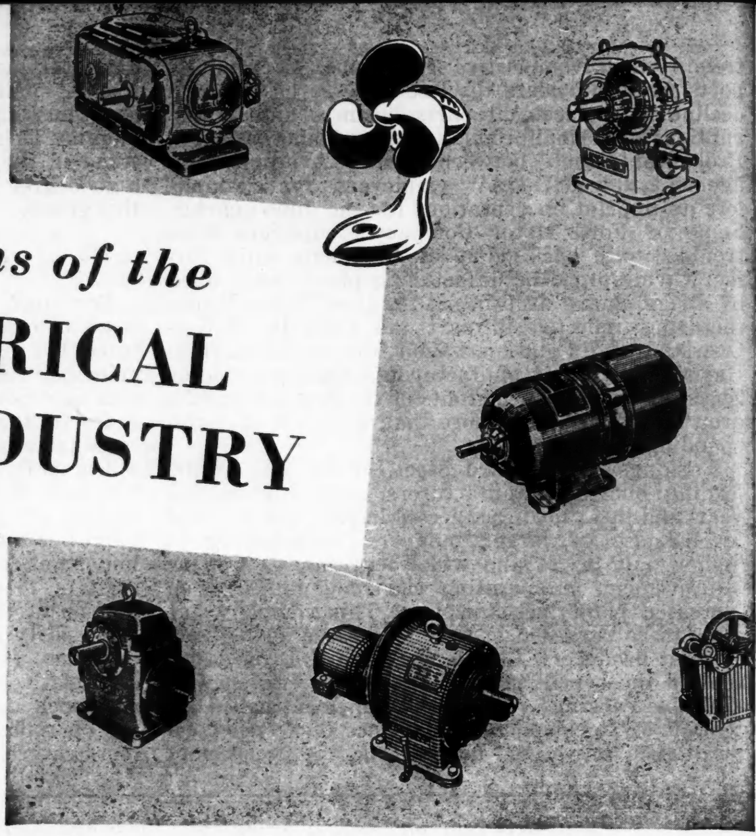
Too much stress cannot be placed on the importance of considering the type of product manufactured by a parts company and the nature of its principal market. Ability to gain a strategic position in production of an essential item for a major share of the potential market and to command a reasonable profit is not as easy as it may seem in a field so fully exploited as the one under consideration here. There is always the prospect of a shifting around of contracts for supplies and likelihood of narrower margins. Aside from this, the number of important car manufacturers is not only limited but most of them have plans to devote an increasing portion of their greatly expanded facilities to produce parts and accessories formerly bought from outsiders. Margins on original equipment normally are relatively thin, but those on replacement parts are much more satisfactory. Hence suppliers leaning on replacement sales, as is often the case, face more severe competition (*Please turn to page* 503)

Statistical Data on Leading Automobile Parts and Accessories Companies (Cont.)

	1948 Net Sales ($ mil.)	1948 Net Margin	1948 Net Per Share	Interim Reports 1949 Net Sales ($ mil.)	Interim Reports 1949 Net Margin	Interim Reports 1949 Net Per Share	Est. 1949 Net Per Share	Recent Price	Div. 1948	Div. Yield	Investment Rating	COMMENTS
Murray Corp. of Amer.	92.5	3.5	3.21	69.0 l	5.0	3.50 l	4.25	12	1.15	9.6	C+1	Slower production on some high-priced models may retard operations later in year and reduce margins. Modest dividend secure.
Raybestos-Manhattan	57.3	4.5	4.08	n.a.	......	.75 s	3.00	25	2.12	8.5	B3	Slackening industrial demand expected to depress earnings moderately, but regular dividend seems amply covered for time being.
Reynolds Spring	11.3	1.8	.66	5.6 n	1.7	.32 n	1.50	5	Nil	......	C+2	Keenly competitive conditions tend to hold down margins. Lack of diversification adverse factor. Prospect of dividend unpromising.
Smith, A. O. X	139.5	4.9	6.89	112.3 p	4.3	4.83 p	6.00	22	.87	4.0	B2	Favorable outlook for pipe combines with high rate of output in auto frames to favor earnings progress. Conservative dividend indicated.
Standard Steel Spring X	47.6	12.0	3.82	n.a.	......	2.12 k	4.25	15	1.25	8.3	C+1	Increasing emphasis on machanization to reduce costs explains earnings improvement. One of lowest cost producers. Dividend generous.
Stewart-Warner	72.5	3.0	2.44	14.7 s	2.7	.31 s	1.20	11	1.50	13.6	C+3	More keenly competitive conditions in other than automotive products depressing earnings but trade position is well sustained.
Thermoid	23.6	4.4	1.20	5.8 s	4.8	.32 s	1.00	5	10% Stock	......	C+2	Reduced demand from some customers may reduce 1948 earnings, but because of employee incentive plan modest year-end dividend possible.
Thompson Products X	97.0	4.7	9.57	53.1 k	5.0	5.56 k	10.00	38	3.75	9.8	B2	Increase in volume of aircraft components helps sustain sales and earnings, but narrower margins are in prospect on replacement parts.
Timken Detroit Axle	111.5	6.9	3.53	70.3 m	6.6	2.14 m	3.00	16	2.00	12.5	B—3	Pickup in sales of oil burners offsets slackening in demand for truck sales. Profits compare favorably with 1948 and dividend appears secure.
Timken Roller Bearing	120.5	11.0	5.45	31.0 s	9.5	1.22 s	4.00	40	3.00	7.5	B3	Rising costs tending to cut profit margins and to depress earnings, but decline seems unlikely to threaten $3 dividend over near term.
Young Spring & Wire X	43.7	6.9	7.41	37.4 p	5.1	5.65 p	7.25	19	1.50	7.9	B2	Abundant raw materials and high rate of motor car output account for rising sales and earnings. Some tapering off possible, but liberal dividend likely.

a—Adjusted.
b—Plus stock.
c—11 months.
e—24 weeks ended June 19.
f—9 months ended June 30.
k—First six months.
l—9 months to May 31.
m—9 months to March 31.
n—6 months to March 31.
p—9 months to April 30.
s—3 months to March 31.
n.a.—Not available.

Pros and Cons of the ELECTRICAL INDUSTRY

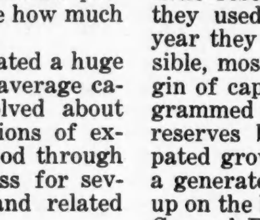


By H. F. TRAVIS

The electric equipment industry includes two major divisions — heavy machinery and light accessories. Electric generators and related equipment are made principally by four companies — General Electric, Westinghouse Electric, Allis Chalmers and Elliott Company—though these companies are also broadly diversified in other lines. In analyzing the output for heavy equipment, it is necessary to study the present construction program of the utilities and try to determine how much longer it will last.

The utilities about two years ago initiated a huge building program, designed to increase average capacity about 50%. The program involved about 20,000,000 KW capacity and many billions of expenditures, over a four or five-year period through 1951-2. This should mean active business for several years for makers of generators and related machinery.

Will the utilities cancel much of this program because of declining business? It seems unlikely. While the recession has checked industrial use of power somewhat, residential and commercial consumption are still running substantially ahead of last year. Joseph B. Epstein, in an article on "Electric Power Output and Investment" in the Survey of Current Business, estimated that secular or regular annual gains in the use of electricity amount to about 8% for residential customers, 6% for commercial and 5½% for industrial consumers. Due to postwar needs and the pent-up demand for appliances, actual residential gains in 1948 ran to nearly 15%, commercial to 13% and industrial to 8%. This extra demand kept the utilities busy using all their obsolete equipment—some of which burns twice as much coal as the new type generators.



The utilities are now more closely interconnected than they used to be and with peak loads for different companies occurring at different times, they have been able to increase overall output without a corresponding increase in capacity. But the demand grew so large last year that most companies operated with very little reserve capacity to spare. Back in the 1930s, they used to have 20-25% reserve capacity; last year they were down to about 5%. As soon as possible, most companies would like to restore the margin of capacity to around 10-15%. Hence, they programmed construction designed not only to increase reserves but also to take care of further anticipated growth. As it takes about two years to make a generator, several years of normal business piled up on the books of such prominent manufacturers as General Electric, Westinghouse, etc.

No Big Order Cancellations Likely

It seems unlikely that there will be any big concellations of this program as a result of the current recession. The utilities may revise their budgets slightly and spread their programs over a somewhat longer period but the program as a whole will hardly be abandoned. The utilities, in making their contracts with General Electric and Westinghouse (they have been using whichever is most available for any particular order), have arranged so that orders can be delayed, or temporarily put on the shelf, if the cost to date is paid. The electric companies are perfectly willing to play ball with the utilities in this way. Thus they will remain assured of a big backlog of orders for generating equipment—except that they may take a little longer to work on it.

The Federal Government is also very much interested in public power projects. It was recently stated that Federal power projects in excess of $50 billions had been put (*Please turn to page* 502)

Position of Leading Electrical Equipment Companies

	1948 Net Sales ($ mil.)	1948 Net Margin	1948 Net Per Share	Interim Reports 1949 Net Sales ($ mil.)	Interim Reports 1949 Net Margin	Interim Reports 1949 Net Per Share	Est. 1949 Net Per Share	Recent Price	Div. 1948	Div. Yield	Investment Rating	COMMENTS
Apex Electrical	$34.2	4.3%	$4.25	$7.7 k	.....	def$1.93 k	def.	$5	$.80	16.0%	C3	With indicated loss for first half due to lower sales, resumption of dividend payments may be deferred pending inventory adjustment.
Black & Decker	25.6	11.1	7.30	18.5 c	9.9%	4.72 c	$5.75	23	3.00	13.1	C+3	Earnings maintained reasonably well through June. While some current decline likely, maintenance of 50¢ quarterly rate appears likely, considering cash position.
Carrier Corp.	54.5	5.0	4.19	51.2 e	4.1	3.14 e	2.50	13	.25	1.9	C+3	Earnings held up fairly well in twelve months ended April. Continuance of present 25¢ quarterly dividend likely (rate reduced from 50¢ June 1st).
Cornell-Dubilier	11.4	4.0	.84	6.9 k	5.8	.48 k	.75	8	.80	10.0	C+2	Sound cash position, and business fairly stable. Maintenance of 20¢ quarterly rate appears likely in view of record.
Cutler-Hammer	40.7	8.9	5.49	n.a.	.....	1.45 k	3.00	22	2.00	9.1	C+3	Company's sound financial position indicates continuation of 30¢ quarterly rate, though declaration of extras seems doubtful, in view of declining earnings.
Emerson Electric	28.4	5.1	3.02	21.2 k	2.8	1.19 k	2.10	9	1.00	11.1	C+3	Company's pre-war record unfavorable, but sales currently supported by Government aircraft program. Net earnings unfavorable but 25¢ quarterly dividend rate may continue.
Eureka-Williams	15.2	1.0	.33	5.6 h	.....	def.73 h	def.	4	.12	3.0	C3	Competition increasingly keen in vacuum cleaners and oil burners; with operations in red for six months ended April, resumption of dividends unlikely.
General Electric X	1,632.7	7.6	4.29	801.8 k	10.1	1.61 k	3.50	37	1.70	4.6	A3	First half sales and earnings considerably lower, pointing to similar level during remainder of year. Barring severe labor troubles, $2 dividend seems safe.
Master Electric	13.4	11.3	3.03	4.9 k	5.7	.57 k	1.25	12	2.40	20.0	B3	With very sound financial position, $1 dividend can probably be maintained, despite sharp decline in earnings. Sales well diversified among 70 industries.
Maytag	68.5	11.9	4.44	11.8 s	8.1	.44 s	2.00	7	1.25	17.9	C3	Despite lower earnings, $1 dividend may still be covered with some margin. Demand for washing-machines appears to be stabilizing. Financial position strong.
McGraw Electric X	33.4	13.4	7.12	25.7 b	11.5	3.53 b	6.80	35	3.50	10.0	B2	Company enjoyed rapid post-war growth, acquiring other large companies in 1948-9. Share earnings increased sharply through March twelve months. Present 75¢ dividend may be continued without year-end extra.
Noma Electric	42.0	6.7	4.39	25.7 f	1.9	.74 f	1.00	8	1.47	18.3	C3	Earnings for June 30 year may be small, and near-term resumption of dividends (paid in stock in March, omitted in June) seems unlikely.
Servel	71.1	7.7	3.00	16.9 g	.....	def.83 g	.....	8	1.00	12.5	C+3	Company benefits by increased distribution of natural gas, with use for air-conditioning. In red recently, but cash backlog may permit continuance of dividends.
Square D X	40.2	9.3	2.71	n.a.	.....	1.16 k	2.50	15	1.30	8.7	B2	Earnings in March quarter well maintained, and company has good cash position. 25¢ quarterly dividend should be maintained but year-end extra less assured.
Sunbeam	41.2	14.0	10.65	10.7 s	11.3	2.25 s	9.00	33	2.50	7.6	B2	Maker of popular appliances such as Mix-Master, company's sales probably better than competitors. Conservative 50¢ quarterly dividend seems assured.
Sylvania Electric	99.3	3.8	2.84	49.7 k	3.1	.93 k	2.50	19	1.40	7.4	B3	Entry into television field favorable and past earnings steady, but first half report rather disappointing. $1.40 dividend rate seems fairly assured.
Westinghouse Electric X	970.7	5.4	3.38	468.1 k	6.1	2.10 k	4.00	24	1.25	5.2	A2	June quarter results show good earnings gain; company's strong cash position indicates continuance of conservative $1.25 dividend rate (including 25¢ extra).
Weston Electrical Instr.	11.6	4.0	2.83	n.a.	.....	1.41 k	2.50	22	2.00	9.1	B2	Though earnings fairly well maintained, dividend coverage is not wide. Thus maintenance of full $2 dividend seems in doubt, in view of moderate cash position.
York Corp.	56.5	5.6	3.00	38.3 c	4.3	1.48 c	2.[illegible]	9	.50	5.5	C+3	Pre-war record generally unfavorable. Growth of air-conditioning expanded post-war earnings, but current earnings lower. Moderate 75¢ dividend (yearly) may be maintained.

b—4 months to April 30, giving effect to merger with Line Material.
e—12 months to April 30.
c—9 months to June 30.
f—9 months to March 31.
g—6 months to April 30.
h—9 months to April 30.
k—First six months.
s—3 months to March 31.
n.a.—Not available.

Will . . . . Farm Equipments Continue High Activity?

By FRANK R. WALTERS

As the fiscal year of most agricultural equipment manufacturers will end on October 30, their progress to date provides a more reliable base in appraising annual earnings than with many other industries. Interim reports of this group reflect exceptionally well maintained prosperity, though signs are accumulating that the postwar peak has now been passed and that moderately lower sales and earnings must be expected in the second half of the current fiscal year.

Farm mechanization is still at flood stage, with sales of equipment at the distributor level recently about four times prewar volume. But even so the dealers find their sales running about 1% lower than a year earlier. This reflects in part the return of seasonal influences, the satisfaction of deferred demand for most kinds of equipment and the prospect that net farm income will decline this year. In contrast, volume of all the leading producers of farm machinery has gained substantially through six months compared with the same period of 1948, thus evidencing confidence by distributors in the near term outlook and the institution of more liberal credit terms.

The Bureau of Agricultural Economics foresees a drop of about 10% in net farm income this year, largely resulting from lower prices. The encouraging outlook for crops indicates that physical output of the farms in 1949 will be comparable to last year. A number of authoritative sources seem to agree that net farm income may decline to around $15.3 billion from the 1948 level of $17 billion. Sizable as this drop would be, it is reasonable to assume that the dip would influence many farmers to defer purchases of expensive equipment until their need has become more urgent. At least, now that the scarcity period has vanished, the widespread scramble to buy all available equipment has also passed, so that farmers are taking their time and scrutinize closely the relative efficiency of offerings as well as price tags. In consequence, demand in the second half should be less pressing, especially as farming activities begin to subside. Then, since dealer inventories have been rising pretty fast, some slowdown in factory orders may result.

Relatively High Demand Anticipated

Fundamentally, there is ground for expecting over-all demand for agricultural machinery to continue at relatively high level for several years to come. Since 1940 to the start of the current year, farmers have invested approximately $9 billion in these labor saving devices and operating cost reductions achieved have been so substantial as to encourage further large investments. The trend should also be supported by the constant development of improved and specially designed equipment. The mainstay of the producers is the modern tractor that in conjunction with a long line of other devices performs a multitude of services. Demand for tractors, particularly of heavier type, continues to be exceptionally strong, with a good chance that production this year may match the 525,000 units turned out in 1948. The Department of Commerce predicts even better sales performance for large combines, of which about 90,000 were produced last year. For many years past, the expanding use of combines has cut into sales of single threshers. Also, the large corn crop in prospect should sustain sales of modern cornpickers, the use of which has risen by more than 84% since the 1945 census. Utilization of milking machines has shown a gain of 74% in the same period. These statistics clearly show how rapidly mechanized the farming industry has become, and how the experience should stabilize original demand,

while replacement items and repair parts should represent an increasing percentage of manufacturers' sales. Margins on the latter items are liberal as a rule.

Farmers Hold Large Liquid Assets

Ability of the farmers to acquire essential equipment has been increased by their steady accumulation of cash resources in recent years. At the beginning of 1949, their holdings of cash, deposits and Government securities aggregated more than $20 billion. By the end of 1949, this figure may be even higher as a result of Federal price supports and the broadening of loan privileges to include some crops not stored in approved quarters. If prices decline below the support levels, the farmers can repay the loans in full by merely transfering title to the pledged crops to the Government. As farm income normally reaches its peak in the fall months, this may tend to minimize any prospective drop in volume of the equipment manufacturers later this year, although seasonal factors will be an important offset.

The farm equipment industry has spent approximately $300 million in postwar to expand and modernize its facilities. While this program has now been virtually completed, several of the leading firms are still making substantial outlays in 1949 to improve their competitive potentials. There are hundreds of farm machinery manufacturers but most of them are relatively small and rely mainly on local trade for their business. A few large and long established enterprises dominate the field as regards both domestic and foreign markets; their widespread service organizations, reputation and relative operating advantages are decidedly in their favor.

Now that steel is in ample supply and material costs are declining, chances are fair that the leading firms may be able to offset reduced volume by increased operating efficiency. This factor should at least help to maintain profit margins at a satisfactory level, unless a fourth round of wage increases raises new problems. At least one large concern has recently lifted wage rates by about 5 cents an hour and the aggressive unions in this industry may force raises elsewhere. Long protracted strikes in this field have become a rather frequent occurrence in postwar, and it remains to be seen how stable operations can be maintained later this year. The industry is rather fortunately situated as to pricing problems, for despite a moderate rise last year, prices have generally been held at a much lower level than most durable goods since the end of the war. In other words, the intensified competition now certain to appear is unlikely to bring much price cutting that would pare profit margins and possibly create inventory losses.

Sound Working Capital Positions

In another respect, also, the group is favorably placed. Excessive demand in postwar enabled the industry to sell mainly on cash terms in contrast to the general prewar practice of granting extended credit terms. This advantage in turn facilitated the financing of sizable post- (*Please turn to page* 501)

Position of Leading Farm Equipment Stocks

	1948			First Half 1949							
	Net Sales‡	Net Margin†	Net Per Share	Net Sales‡	Net Margin†	Net Per Share	Recent Price	Div. 1948	Div. Yield	Investment Rating	COMMENTS
Allis-Chalmers X	$328.1	4.7%	$5.67	$90.8 e	5.4%	$1.82 e	$29	$1.60	5.5%	B1	Current year earnings should amply cover 40 cents quarterly dividend, and chance for improvement not irrational.
Avery (B. F.) & Sons	9.6	4.9	3.04	8.1 f	n.a.	n.a.	9	.50	5.5	C2	Plant improvements and lower materials costs should largely offset slightly reduced volume. No change in 25 cents quarterly dividend expected.
Case, J. I. X	154.2	6.7	11.39 a	89.8 g	n.a.	n.a.	37	1.82 a b	4.9	B2	Sharp rise in early 1949 earnings may hold net fiscal year close to last year. Maintenance of at least 40 cents quarterly dividends indicated.
Deere W	309.7	7.6	7.16	187.7 g	8.7 g	5.11 g	36	2.75	7.7	B2	Early volume and earnings gains should cushion later slight declines. Conservative 25 cents quarterly dividend may be supplemented by extra at year end.
Gleaner Harvester	10.7	23.8	6.32 a	10.7 c	24.1 c	6.45 c	26	3.27 a b	12.6	B2	Prospects of continued high level earnings suggest further liberal dividend policies this year.
International Harvester W	945.5	5.9	3.92	482.8 g	7.8 g	2.72 g	26	1.70 a	6.5	B2	1949 final results may not quite match 1948 but quarterly payments of at least 35 cents a share seem assured.
Minneapolis Moline	73.2	8.8	8.25	35.6 g	8.1 g	3.20 g	12	Nil	....	C3	Recapitalization to clear arrears a constructive factor, and no change in recently inaugurated 35 cents quarterly dividend probable.
Myers (F. E.) & Bro.	13.9	11.4	7.88	6.2 g	8.7 g	2.70 g	41	4.00	9.7	B3	Moderate decline in earnings anticipated but with no threat to 75 cents quarterly dividend.
Oliver Corp.	103.3	7.7	9.38	54.7 g	5.7 g	3.65 g	23	3.00	13.0	C+3	Net earnings may not fully equal last year's record level, but total dividends this year should at least compare with those of 1948.

a—Adjusted.
b—Plus stock.
†—Net income as percentage of sales.
‡—In million dollars.
c—Nine months ended June 30.
e—Three months ended March 31.
f—Nine months ended March 31.
g—Six months ended April 30.
n.a.—Not available.

FOR PROFIT AND INCOME

Range

The maximum range of the daily industrial average, on the basis of closing prices, has been approximately 20 points so far this year, compared with 28 points last year and 24 points in 1947. It is possible that this may approximate the range of fluctuation for the full year, now that fears about business prospects for the second half have been somewhat reduced. But there is a stronger chance, in this column's view, that the January high of 181.54 will not be appreciably exceeded, than that the June low of 161.60 will not be broken. Conditions making for any broad revival of speculation are not foreseeable; and the imponderables set moderate limits as to how far investors will reach for stocks. These include the threat of eventually higher taxes on corporations and individuals above the lower-income brackets, which is implicit in public spending tendencies; the drive of organized labor for even greater political and economic power; and the basic uncertainties in foreign relations. These things have something to do with the low price-earnings ratios of recent years. The business cycle is only part of the story.

Confidence

For more than a fortnight low-priced stocks, despite a number of individual exceptions, have been somewhat more sluggish than the general industrial list. There was similar action well in advance of the 1946 bull-market high. Unless our low-priced stock index gets going on the upside again very shortly, the chances are that this summer rally in the market is now living on borrowed time. In other words, investment demand seems unlikely to add much to the 15-point rally in the industrial average seen so far since mid-June. It probably would take more active speculation or a rush of short-covering to bring a blow-off extension of the rise. Whether either will be forthcoming is doubtful, and certainly remains to be seen.

Comparisons

After more than a decade of vast changes in business, the widest range fluctuation in average stock prices since the 1920's and many reversals of market direction, the general market stands roughly 20% over the average level of the years 1935-1939. The following stock groups are below their prewar average: containers, electrical equipment, gold mining, household furnishings, lead and zinc stocks, leather stocks, metal fabricating, railroads, railroad equipment, sugar and tobacco products. The following are above their average 1935-1939 levels by a much wider margin than the general market: air transport, brewers, distillers, cement stocks, coal, fertilizer stocks, dairy products, oil, paper, all groups in retail trade, the shipbuilding stocks, shipping, cotton goods, rayon, tires and natural gas. It is easy to lose sight of such long-term shifts in market position when examining differences in stock-group behavior on an intermediate rally or reaction in the market.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1949	1948
Barnsdall Oil	6 mos. June 30	$3.27	$3.03
Baldwin Locomotive	6 mos. June 30	—.74	—.65
Bethlehem Steel	June 30 quarter	2.62	1.50
Bliss & Laughlin	6 mos. June 30	1.31	1.17
Cleveland Graphite	6 mos. June 30	2.36	1.60
DuPont	June 30 quarter	—.90	—.66
Elliott Co.	6 mos. June 30	4.47	3.72
Freeport Sulphur	June 30 quarter	1.71	1.22
U. S. Pipe & Foundry	6 mos. June 30	4.07	3.69
Goebel Brewing	June 30 quarter	—.45	—.28

Seating

American Seating has recently advanced above 32, a new high since 1946, and a rise of roughly 30% since it was first commented on favorably in this column. On indicated earnings, plus dividend potentials, it might conceivably top the previous all-time high of 33½, made in 1946. Even so, this column's advice to any readers still holding it is to take the profit. This is a relatively small special-situation company. We see no threat on its horizon — but too often it has been impossible to detect the development of adverse changes in such situations before the stock is already down.

Forecast

Total corporate dividends for the first half-year were at an annual rate of \$8.15 billion, according to government data. This is above 1948's total of \$7.8 billion, although slightly under the annual rate reached in the highest 1948 quarter, which was the fourth. On present indications it is readily possible that full-year payments may just about equal those of last year, and improbable that they could fall short of doing so by more than 5% to 7% at the outside. In this column's view, the minority of secure-dividend stocks in relatively stable industries have probably seen their lows — mostly made in 1947 or 1948 — for a long time to come, however doubtful may be the outlook for the majority of cyclical-type stocks. But they are subject to moderate reactions and the very investment characteristics which favor such stocks also set limits, and not very wide ones, to their advance. Hence, their main attraction is for income return.

Selection

Most investors are temperamentally inclined to sit on their stockholdings in any event — too much so in many cases. They would fare better over the years if they concentrated largely in industries subject to growth. There is much less hazard involved in aiming for moderate growth, through the industry approach, than in trying for spectacular growth in individual "special-situation" stocks. Indeed, it is possible to do it in good-quality dividend-payers in industries whose products are subject to little or no slump in demand in periods of general business recession. Examples are to be found in such essential industries as electric utilities, natural gas, ethical drugs and oil, among others.

Utilities

Some of the most attractive situations in the utility field are stocks of companies made independent, and given invigorated management, in recent years by the breaking-up of big holding companies under the Holding Company Act. One such, of high investment grade, is Public Service of Colorado, selling at about 40, with \$2.20 in dividends likely this year and at least twice covered. Such low-priced issues — low in price solely due to the character of capitalizations — as Northern States Power (10), South Carolina Electric & Gas (8¼) and Central & South West Corp. (11½) all offer excellent yields on amply covered dividends and appear subject to substantial longer-term progress, without the degree of vulnerability to general market declines which characterizes stocks in cyclical industries.

Natural Gas

Strong long-term growth is assured, and public regulation permits a return of around 6% or so on increasing property investment. As much more of the expansion is financed by issuance of low-rate senior securities and internal funds combined than by enlargement of equity capitalizations, a material long-term growth of equity earnings and dividends appears probable. On growth potentials, two of the best stocks in this field are Southern Natural Gas, operating in Georgia, Alabama and Mississippi; and Northern Natural Gas, operating in Kansas, Iowa, Nebraska, Minnesota and South Dakota.

Drugs

With a continuing stream of new and important remedies, the end of growth in the ethical drug field is not in sight. Volume would be importantly stimulated were a compulsory public health-insurance program ever adopted. It will be aided more gradually anyway by the growth of voluntary health-insurance and hospitalization plans. Among the more attractive issues in this field, if bought on market sell-offs, are Abbott Laboratories, Sharp & Dohme and Merck, although the latter is only partly in medicinal chemicals.

Oil

There is no question about long-term growth of consumption of gasoline and fuel oil. The industry's present trouble is excess supply of heavy crude oils, from which the bulk of the fuel oil is taken; and a resultant unbalanced cost-price situation for refiners. Correction may involve price adjustments and the stocks can decline, but earnings should remain good by prewar standards. On market sell-offs, many oil stocks will rate as attractive long-term investments. It may be noted that one of the secondary companies, Richfield Oil, appears to face a radically improved prospect as a result of its discovery of the Russell Ranch Field in California last year. This has proved to be a major find. The company earned \$4.19 a share last year, and probably will better that for 1949, contrary to the oil industry's trend. The dividend rate is \$2.00. The stock is around 36.

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1949	1948
Am. Radiator	June 30 quarter	\$—.23	\$—.50
Houston Oil	June 30 quarter	1.14	1.32
Nat. Distillers	6 mos. June 30	1.38	1.40
Radio Corp.	June 30 quarter	—.24	—.31
Skelly Oil	June 30 quarter	5.11	9.61
Standard Brands	June 30 quarter	—.56	—.60
Stand. Oil, California	June 30 quarter	2.81	3.12
Sylvania Electric	June 30 quarter	—.19	—.84
Tydewater Ass. Oil	6 mos. June 30	2.17	3.09
U. S. Rubber	June 30 quarter	2.30	4.70

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

International Shoe Company

Please indicate sales and profit trend of International Shoe Company. I have been a subscriber to your magazine for 19 years and value it highly.

B. D., Rocky Mount, N. C.

International Shoe Company earned a net profit of $4,476,525 for the six-month period ended May 31 and this compares with a net of $6,949,461 for the corresponding period last year.

Earnings were $1.31 per share for the first half of this year, against $2.04 for the same period last year. Dividends of $1.50 per share on the 3,400,000 shares of common stock were the same as for the corresponding period. Dividends in 1948 totaled $3.00 per share and disbursements for the current full year are expected to equal the same amount.

Sales of shoes totaled $91,818;-488, a decrease of approximately 20% from the figure for the same six months last year. Total value of products, including leather and other materials produced for the company's own use in manufacturing shoes, was $132,211,751, also representing a decrease of approximately 20% by comparison with last year's corresponding period. At the same time, net profit decreased from 6% to 4.9% of sales, and from 4.2% to 3.4% of products value.

Shakedown of inventories and prices dominated the national economy during virtually all of the company's first half of fiscal 1949. Retail shoe sales showed only a small percentage decrease from the extremely high level of the preceding year. Even these small decreases, however, affected business psychology and caused tight buying all along the line. In this way small decreases in business activity at the retail level became larger decreases at the wholesale and manufacturing level.

Although the company reduced prices in keeping with trends during the period, lighter cow hides and other light hides and skins usable generally in the production of shoes remained at relatively high levels — in fact stubbornly resisted the trend toward lower prices.

With few exceptions, company's factories are presently running on full schedules and indications are that sales in the last half of the year will not differ materially from those in the same period last year.

Southern California Edison Co.

I understand that Southern California Edison Company operates in a growing territory and therefore would be interested in learning about company's recent earnings, prospects and dividends.

R. N., Stamford, Conn.

Net income of Southern California Edison Company for the second quarter of 1949, after all charges and providing in full for dividends on all classes of preferred stock, was equal to 87c per share on the present outstanding common stock, including 800,000 shares recently issued, as compared with 65c per share reported for the second quarter of last year on the then outstanding common stock. Total income for the second quarter was $5,031,407 as compared with $3,468,888 in the same period of 1948.

Net income for the twelve months ended June 30, 1949, after all charges, was $15,570,337, or $2.39 per share on present outstanding common stock after preferred dividends, compared with $10,193,786 or $1.79 on the common shares outstanding June 30, 1948. Gross revenues for the twelve months ended June 30, 1949, was $100,305,552 compared with $92,158,024 in the preceding twelve months.

Capitalization, (giving effect to recent financing): Funded debt $203 million, various preferred stocks outstanding 5,063,000 shares, and 3,986,328 shares of common stock outstanding.

Net proceeds from recent sale of 800,000 common shares are being used to finance, in part, the construction program which involves approximately $254,800,-000 of gross additions to electric plant, of which $147,200,000 had been made by the end of 1948, leaving $79,317,000 for 1949 and $28,281,000 for 1950 and 1951. Additional amounts not presently authorized are expected to be required in 1950 and 1951.

Dividends on the common stock in 1948 amounted to $1.50 per share and the quarterly rate has been raised this year to 50c per share.

National Cylinder Gas Company

I am very much interested in the National Cylinder Gas Company. I am particularly interested in income and therefore please advise if recent earnings are covering the dividends.

E. K., New Rochelle, New York

National Cylinder Gas Company reported lower earnings for the first six months of 1949 in comparison with the same period of 1948. Sales for the six months ended June 30 were $11,449,795 compared with $12,803,260 for the first six months of last year.

Earnings per share of common stock were 66c, compared with 84c a share reported for the first half of 1948.

Regular quarterly dividends were declared on the 4¼% preferred stock, the 4¾% preferred stock, and the comon stock. The latest 20c dividend on the common stock is payable September 10, 1949, to holders of record August 10, 1949. This is the third quarterly dividend of 20c per share declared on the common stock this year and full year 1948 disbursements amounted to 80c per share and 2% in stock. Earnings have covered regular dividend requirements by a fair margin thus far this year.

National Cylinder Gas Company is one of the larger manufacturers of oxygen and acetylene, industrial gases used in the cutting and welding of steel, iron and other metals. Other gases produced are nitrogen, hydrogen and carbo-hydrogen and medical oxygen and anesthetic, while carbon-dioxide, dry ice and propane, purchased from others, are distributed. The company also manufactures welding equipment, etc. Subsidiaries manufacture oxygen and acetylene in Canada, Colombia and Venezuela. Capitalization consists of funded debt of $4,700,000; 4¼% cumulative preferred, 30,800 shares outstanding; 4¾% preferred, 15,000 shares outstanding; and 1,335,607 shares of common stock outstanding.

Ward Baking Company

I understand that Ward Baking Company was affected by a labor dispute recently and am wondering how this work stoppage was reflected in recent earnings. *C. E., Westlawn, Pa.*

Operations of Ward Baking for the 28 weeks ended July 9, 1949, resulted in a decrease in sales of $3,339,503 to a total of $40,754,684 as compared with the 27 weeks which comprised the first fiscal half year of 1948. Earnings per share of common stock for the first fiscal half of the year 1949 were $1.73 compared with $2.07 in the first fiscal half of 1948.

The decrease in sales is attributable to a 19-week work stoppage in the first half of the year in the company's large Bronx and Brooklyn plants. This was a consequence of a labor dispute with driver-salesmen employed by six New York City baking companies, including Ward. The dispute was settled and operations in both of Wards' New York City plants were resumed on July 25, 1949 under a new two-year contract which provides for wage increases but which does not include other demands such as a welfare fund, pensions, etc.

Dividends including extras amounted to $1.85 per share in 1948 and $1.00 was paid on the common stock in the first half of the current year.

Funded debt of company consists of debenture 5½s due 1970 in the amount of $6,292,825. Capital stock consists of 5½% cumulative preferred, par $100, outstanding 63,952 shares; and 719,930 common shares, par value $1.00.

W. F. Hall Printing Company

Please advise on financial condition, dividends and expansion program of W. F. Hall Printing Company. *F. A., Philadelphia, Pa.*

Consolidated net earnings of W. F. Hall Printing Company for the fiscal year ended March 31, 1949, increased moderately to $2,882,182, or $2.88 per share on the 1,000,000 common shares outstanding, as compared with $2.70 per share for the previous year. The improvement in net earnings was due primarily to an increase in sales and a gain in operating efficiency.

While consolidated sales gains for the year were the largest in the company's history, all costs continued to advance. The provision for depreciation, because of net additions to plant and equipment, increased to $763,927, as compared with $627,883 for the previous year. Repairs and maintenance increased to $1,640,003 from the $1,457,780 expended in the previous fiscal year, largely due to higher costs and increased wear of production facilities.

The consolidated balance sheet shows a sound and liquid financial position. Net working capital amounted to $8,695,699 and the current ratio was 2.83 to 1. The book value of the common stock increased to $18.10 per share. During the fiscal year, the company paid the regular dividend of $1.00, plus an extra dividend of 25c per share on the common stock, which in all amounted to $1,250,000, and $1,632,182 was retained and invested in the business. It has been the policy of the company to declare dividends in amounts consistent with the earnings of the company and the desired improvement in its financial position.

An extensive plant expansion and modernization program was begun shortly after the end of the war. During the fiscal year the company expended nearly $3 million for capital additions, raising the total of such spending for the last three years to nearly $10 million, and it is estimated that approximately $1 million will be expended subsequent to March 31, 1949 to complete the program and insure more efficient operations.

These capital expenditures, amounting to 1.16 times the net earnings in the three-year period, were partly responsible for the results achieved in the past year. As far as can now be foreseen, results for the first six months of the current fiscal year should be reasonably satisfactory. Beyond that, it is difficult to make a forecast.

Container Corporation of America

Please furnish information as to recent earnings, dividends and working capital position of Container Corporation of America. *S. R., South Bend, Indiana*

Consolidated earnings of Container Corporation of America for the six months ended June 30, 1949, after provision for Federal income taxes, netted $3,609,840 equal to $3.45 per comon share, compared with first half of 1948 net earnings, after Federal income taxes, of $4,215,911 equivalent to $4.05 per share.

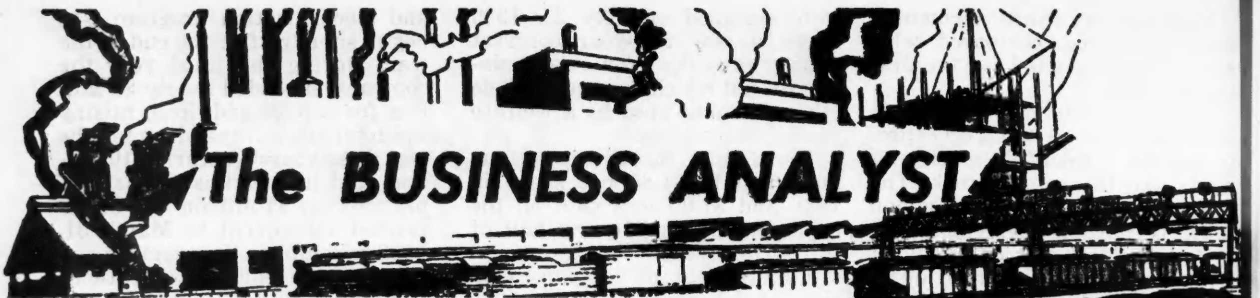
Comparison of net earnings for the most recent quarter ended June 30, 1949, showed a decline to $1,635,527 or $1.56 per common share from $2,103,081 or $2.02 per share in the same quarter of 1948.

Sales for the six months ended June 30, 1949, were $55,362,920 compared with $65,063,188 for the corresponding period of 1948, a decrease of 14.9%.

Working capital increased $1,789,319 and earned surplus $1,184,184 since the first of the year.

An amount of $2,026,327 has been set up as a reserve for adjustments. A substantial portion of this amount is represented by a reserve for maintenance which will be expended in the last six months of the year.

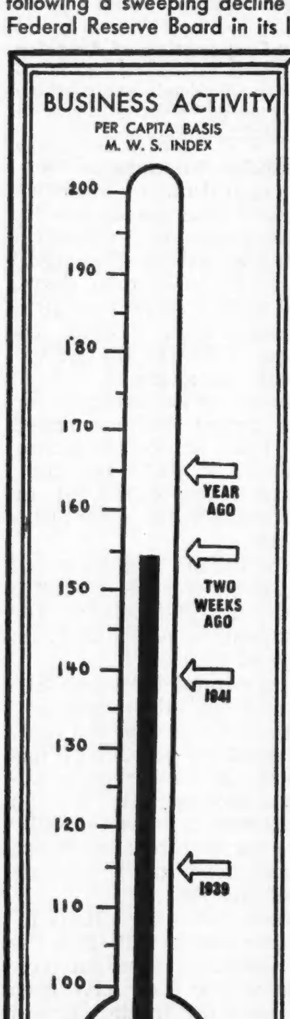
Dividends including extras totaled $4.50 a share in 1948 on the common stock and three quarterly dividends of 75c each have been declared thus far in the current year. Company ranks as one of the leading producers of linerboard, boxboard, drawboard, corrugated and solid fibre shipping containers, folding cartons and paperboard cans.



What's Ahead for Business?

By E. K. A.

Non-durable goods production leveled off in May and June following a sweeping decline in preceding months, says the Federal Reserve Board in its latest report on the trend of industrial production. Activity in textile, paper, rubber, chemical and petroleum products industries which had been substantially curtailed earlier, has shown a smaller decline or little change since April, and output of most other non-durable goods, mainly foods, has continued at a high level. In a few industries, notably apparel wool and rayon textiles, production has shown recoveries from the sharply reduced April rate.



However, durable industries continued to decline, particularly steel. Hence the Board's index of industrial production in June dipped to 169% of the 1935-39 average from 174% in May and a postwar high of 195% last November. This drop has been foreseen and a similar decline is anticipated for July which may witness a temporary low at around 165%, and possibly a trifle lower. Thereafter, seasonal forces are likely either to halt the downtrend or produce a temporary reversal.

The mainly seasonal business recovery which seems to be developing now will, however, have to gain considerable vigor if it is to carry through into 1950. Later in the year, seasonal factors will adversely affect activity in the automotive, farm equipment and construction industries and it is questionable to what extent the resultant downpull can be offset by the upturn in soft goods. In automobiles, particularly, it is pretty much of a guess how much of a winter decline there will be. If it is fairly pronounced, overall business will again slide off until spring, a development that would be in line with current general expectations. Still the final low should not be more than 10 to 15 points below the June level.

Business sentiment, meanwhile, is improving. Most business men seem to feel better about the outlook than they did earlier this year. This is evident in the stronger tone that has developed in several markets, with buyer interest more marked and with less inclination to haggle over prices. In some fields there has been a real improvement in new orders and production, and though it may be merely seasonal it had a bolstering effect on psychology.

Inventories are still a problem in some industries and purchasing agents say it will take another thirty to sixty days to clear these excess stocks. In contrast, there are virtually no inventories elsewhere, and here only a small amount of new business is sufficient to bring about a noticeable pick-up.

Signposts on the Price Front

Notable signposts on the price front are that (1) wholesale commodity prices since mid-June have held within a very narrow range, and (2) the commodity futures price index has steadily worked higher. The former may be explained by the fact that industrial buying earlier this year almost everywhere was cut to a point far below current requirements, now forcing many buyers back into the markets to maintain adequate working stocks even for current lower output volume.

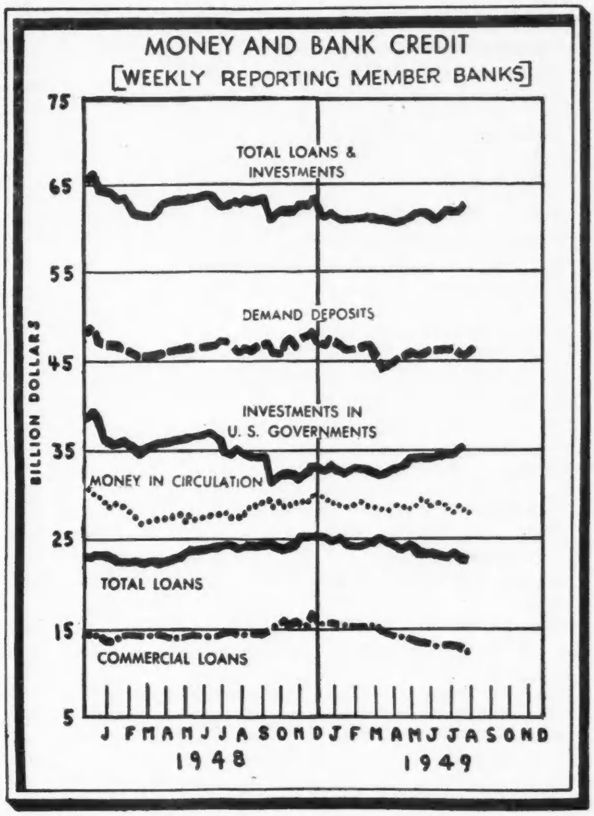
The rise in commodity futures, implying the belief in higher prices in the months ahead, may well be related to the Administration's reflation program promising another inflationary "shot in the arm." While it will take time for such measures to be effectively felt, it is also possible that the very anticipation of another inflationary boost is bringing about a gradual revision of ideas over the future price trend.

Still it is difficult to have firm ideas about what lies ahead pricewise. Supplies everywhere are ample, particularly in agricultural commodities where the threat of huge surpluses remains. Whether they can be digested without further price declines—despite high price supports and new inflationary measures—is at least questionable. However, the better tone currently prevailing in commodity markets is worth watching not only from a price viewpoint but also from the standpoint of business psychology. Psychology has played an important part in the recession and any real improvement in sentiment could cut short the downswing sooner than presently allowed for. It would be more comforting, however, if the better tone reflected actual business improvement rather more than vague anticipation of another inflationary shot. The evidence thus far does not fully clarify the point.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—For the first time since the winter of 1945 our Common Stock Index has advanced for six consecutive weeks without even a minor reaction; yet during this period has recovered only 74% of the previous five-weeks' decline and, at closing prices on July 29, was still down 3.5% from the first of the year, with 21 of our 46 sub-group indexes actually up on the year. During the fortnight ended July 29, nine of the sub-group indexes made new highs for various periods, as tabulated on the second page following. N. Y. bank stocks, corporate bonds and preferred stocks of investment rating and foreign government dollar bonds were firm; but U. S. Government bonds declined fractionally. British government bonds in the London market sank to the lowest level since Dunkirk. Short interest as of July 15 in stocks listed on the N. Y. S. E. was the largest since Feb. 20, 1933, and, in relation to the volume of trading, was the largest in eighteen years. Brokers' loans on non-Government securities have declined $266 million, or 38%, in the past three weeks. Corporate working capital reached a record total of $65.8 billion on March 31—$3.1 billion greater than a year earlier. Commercial paper rates have been reduced 1/8%. In the fortnight ended July 20, commercial loans by weekly reporting member banks continued to decline; but this was more than offset by larger purchases of U. S. Government and other securities, so that earnings assets are again a little larger than a year ago. Government deposits with weekly reporting member banks have dropped to $532 million below a year ago. The Government has thus decided to resume deficit financing on Aug. 4, for the first time in over three years, by offering $200 million more of 90-day bills than mature on that date. This expedient will be continued from time to time until September, when some big new issues may be offered. Record automobile sales boost earnings of finance companies.



TRADE—Decline of 11% below last year in department store sales during week ended July 23 has widened to 5% the cumulative decline for the year to date; but, starting with the fourth quarter, annual comparisons are likely to become progressively less unfavorable; since it was in October of last year that the sales boom began to ebb. Britain's foreign trade deficit rose in June to $217 million, largest since Sept., 1947, with imports rising to a record level to the accompaniment of a slump in vital dollar shipments to the U. S. of items such as automobiles, tractors, textiles and pottery. She hopes to arrange a $600 million bilateral trade deal with Japan. It is estimated that the 25% cut in British Commonwealth imports from dollar area countries may amount to an annual reduction of around $800 million, or 6%, in our total exports. It is reported that smuggling of West Germany's production to communist nations of eastern Europe amounts to over $400 million annually. This amounts to about 40% of Germany's legitimate exports and to half of what our people are taxed to subsidize West Germany.

INDUSTRY—Slump in new orders arrested in May; but furniture and machine tool orders continued to decline in June. Business activity picks up a bit during the week ended July 23, with the margin of decline below last year narrowing to 5.3%. Automobile production and construction continue at record levels. Demand for cotton and rayon textiles is picking up; but woolen cloth has been reduced in price. Refrigerator and storage battery makers are also doing a little better. Earnings of fire and casualty companies benefit from lower prices; since premium income is still largely from earlier policies.

COMMODITIES—Commodity futures, with the notable exception of corn, were generally higher during the fortnight ended July 30. Spot prices also advanced, except for cotton and hides. Anticipated storage shortage has not developed. Private interests have provided more space while the Government is still talking about the "crisis." Farmers are thus not hurrying to market their crops.

Basic business indicators suggest that the thus far relatively mild **Recession** may have struck bottom, for the time being at least. Personal incomes in the aggregate are still larger than a year ago, despite a considerable increase in unemployment. With automobile production and construction activity at record heights, demand for metals is again expanding, to the accompaniment of rising prices for lead, zinc and copper. The possibility of another upsurge in business activity and prices is of such vital general interest that recent developments seem well worth reviewing here in greater detail.

* * *

New Orders booked by manufacturers picked up a little in May, due mainly to a small seasonal rise in nondurable goods lines. Orders for durables were virtually unchanged from April; but the decline below last year narrowed to 20%, from 29% in April. This was because new orders for durables dipped

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	June	1.31	1.18	1.11	1.55
Cumulative from mid-1940	June	383.4	382.0	369.2	13.8
FEDERAL GROSS DEBT—$b	July 20	253.2	252.9	253.3	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	July 20	46.4	46.0	46.7	26.1
Currency in Circulation	July 27	27.3	27.4	27.8	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	July 20	8.87	8.84	8.60	4.26
93 Other Centers—$b	July 20	12.02	12.03	12.32	7.60
PERSONAL INCOMES—$b (cd3)	May	214	214	211	102
Salaries and Wages	May	138	139	135	66
Proprietors' Incomes	May	47	46	49	23
Interest and Dividends	May	17	17	16	10
Transfer Payments	May	12	12	11	3
(INCOME FROM AGRICULTURE)	May	23	22	25	10
CIVILIAN EMPLOYMENT—m (cb)	June	59.6	58.7	61.3	51.8
Agricultural Employment (cb)	June	9.7	9.0	9.4	8.8
Employees, Manufacturing (lb)	June	15.1	15.0	16.1	13.8
Employees, Government (lb)	June	5.8	5.8	5.6	4.6
UNEMPLOYMENT—m (cb)	June	3.8	3.3	2.2	3.8
FACTORY EMPLOYMENT (1b4)	June	145	145	158	147
Durable Goods	June	165	166	184	175
Non-Durable Goods	June	128	127	137	123
FACTORY PAYROLLS (1b4)	May	329	336	359	198
FACTORY HOURS & WAGES (1b)					
Weekly Hours	May	38.6	38.3	39.9	40.3
Hourly Wage (cents)	May	137.5	137.6	130.1	78.1
Weekly Wage ($)	May	53.08	52.70	51.86	32.79
PRICES—Wholesale (1b2)	July 26	152.8	154.3	169.1	92.5
Retail (cdlb)	May	188.4	189.2	192.1	116.2
COST OF LIVING (1b3)	June	169.6	169.2	171.7	110.2
Food	June	204.3	202.4	214.1	113.1
Clothing	June	190.3	191.3	196.9	113.8
Rent	June	120.6	120.4	117.0	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	June	10.74	10.80	10.87	4.72
Durable Goods	June	3.42	3.39	3.15	1.14
Non-Durable Goods	June	7.32	7.41	7.72	3.58
Dep't Store Sales (mrb)	June	0.73	0.82	0.82	0.49
Retail Sales Credit, End Mo. (rb2)	June	8.16	7.96	7.07	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	May	202	195	244	181
Durable Goods	May	206	206	267	221
Non-Durable Goods	May	200	188	230	157
Shipments (cd2)—Total	May	317	315	328	187
Durable Goods	May	365	371	353	227
Non-Durable Goods	May	289	283	314	158
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	May	52.5	53.7	51.2	28.6
Manufacturers'	May	30.8	31.2	29.4	16.4
Wholesalers'	May	7.9	8.2	7.8	4.1
Retailers'	May	13.8	14.3	14.0	8.1
Dept. Store Stocks (mrb)	May	2.1	2.3	2.3	1.4
BUSINESS ACTIVITY—1—pc	July 23	154.0	153.4	165.2	141.8
(M. W. S.)—1—np	July 23	177.2	176.4	187.1	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 495)

sharply in May of 1948, to a level which turned out to be the low point of the year. May orders for iron and steel products were 40% below last year, compared with 45% in April. May orders for nondurables, on the other hand, were only 13% below last year, compared with a drop of 19% in April. Urban **Building Permits** rose in May to 1% above last year, compared with a 5% decline for 5 months.

* * *

Manufacturers' **Shipments** of durable goods in May were 3% ahead of the like month last year, owing to a 34% leap in automobiles and equipment; but nonferrous metal products were off 22%. Due mainly to a 24% drop in textile mill products, May shipments of nondurables were 8% under last year; but beverage shipments jumped 31%.

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Backlogs of unfilled orders for durable goods at the end of May were 17% smaller than a year earlier, with iron and steel products reporting a decline of only 7% and machinery 16%; but backlogs in other durable goods lines slumped to 42% below last year.

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The few isolated reports on new orders booked during June, however, are not too encouraging. **Machine Tool** orders dropped to a new post-war low—15% below May, and 35% under a year ago; yet shipments reached a new 1949 high. In consequence, backlogs at the end of June were equivalent to only 3½ months' shipments, compared with 4.4 months' at the end of May.

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Furniture orders booked by manufacturers in June were 17% smaller than during May and 37% below last year, compared with a six-months' drop of only 23%. However, retail sales have topped manufacturers' orders during the past few months, indicating that dealers have been lightening inventories. If this discrepancy persists much longer, there is bound to be a recovery in orders placed with manufacturers.

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Construction expenditures during the first half reached a new high record—4% above the like period last year. Urban dwelling starts in June were 5% ahead of May and 2% above June, 1948. Last year, dwelling starts peaked in May.

* * *

The Commerce Department estimates that expenditures on new **Plant and Equipment** during the third quarter will be only 5% below the like period last year. Expansion of plant capacity by the **Utilities** during the first half was 33% more than last year.

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	June	169	174	192	174
Mining	June	134	146	159	133
Durable Goods Mfr.	June	194	201	222	220
Non-Durable Goods Mfr.	June	161	161	169	151
CARLOADINGS—t—Total	July 23	718	724	882	833
Manufactures & Miscellaneous	July 23	321	322	372	379
Mdse. L. C. L.	July 23	85	85	99	156
Grain	July 23	75	80	65	43
ELEC. POWER Output (Kw.H.)m	July 23	5,462	5,342	5,342	3,267
SOFT COAL, Prod. (st) m	July 23	7.0	6.6	12.3	10.8
Cumulative from Jan. 1	July 23	244	267	322	446
Stocks, End Mo.	May	72.7	65.2	47.0	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	July 23	4.7	4.7	5.4	4.1
Gasoline Stocks	July 23	110	111	101	86
Fuel Oil Stocks	July 23	69	68	48	94
Heating Oil Stocks	July 23	70	69	51	55
LUMBER, Prod. (bd. ft.) m	July 23	713	509	743	632
Stocks, End Mo. (bd. ft.) b	May	7.7	7.6	7.6	12.6
STEEL INGOT PROD. (st.) m	June	6.50	7.59	7.27	6.96
Cumulative from Jan. 1	June	45.9	39.4	43.1	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	July 28	132	159	114	94
Cumulative from Jan. 1	July 28	4,579	4,447	3,914	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	July 23	152	146	159	165
U. S. Newsprint Consumption (st)t	June	443	496	419	352
Do., Stocks (mpt), End Month	June	688	664	538	523
Hosiery Production (pairs)m	May	132	134	146	150
Footwear Production (pairs)m	May	35.0	37.6	30.9	34.8
Whiskey, Domestic Sales (tax gals.)m	May	5.7	3.4	3.3	8.1

PRESENT POSITION AND OUTLOOK

* * *

While Department Store **Sales** in June fell to 11% below the like month last year, sales by all retail outlets throughout the Nation were off only 1%, with nondurable goods down 5% while durables were actually up 5%. The later was due to a 35%-above-last-year jump in automobile deliveries. Excluding **Automobiles,** total sales experienced a decline of 7%, while other durables slumped 12%. In fact automobiles and filling stations, which accounted for 23% of all retail sales, were second only to food and beverages, for which 33% was received.

* * *

This helps to explain the mystery of why department store sales have fallen off so sharply while total **Personal Income** still holds above last year. People are simply going without some things in order to buy a new car.

* * *

As long as the principal metal-using industries are booming, a business recession can not go very far. Of course construction will ease off seasonally this winter. The big question now is: "will automobile sales do likewise?" Some think they will. If not, a fourth round of wage increases, added to deficit spending, could touch off another **Inflation Spiral.**

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

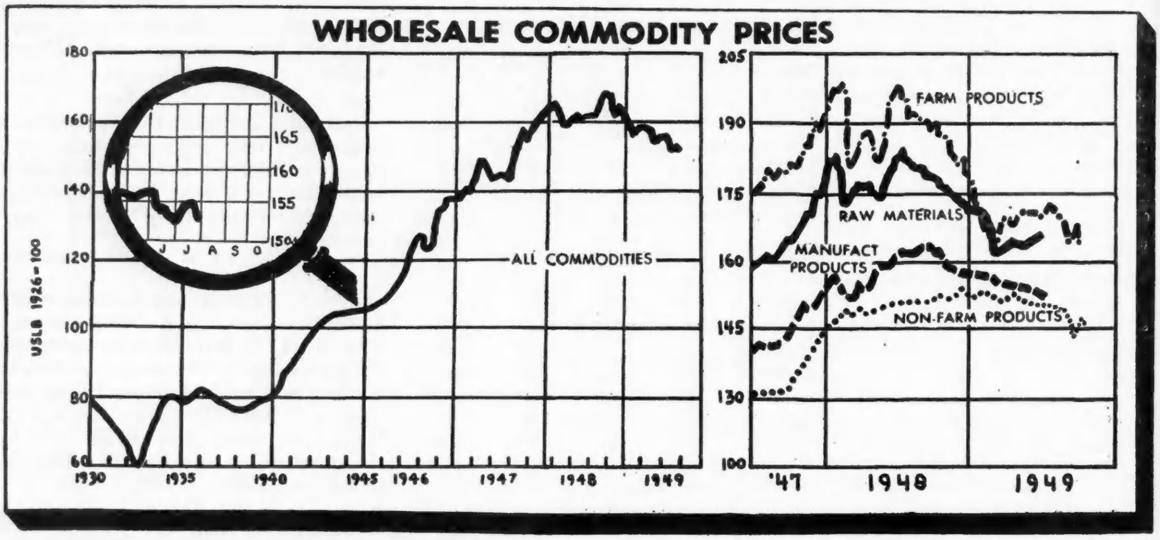
No. of Issues (1925 Close—100)	1949 Indexes High	Low	July 22	July 29
320 COMBINED AVERAGE	127.6	108.0	116.5	117.0
4 Agricultural Implements	200.0	162.1	179.6	180.3
10 Aircraft (1927 Cl.—100)	175.3	138.2	140.0	146.0
6 Air Lines (1934 Cl.—100)	454.7	366.1	454.7A	447.0
6 Amusement	93.4	75.7	84.5	83.1
12 Automobile Accessories	188.9	145.2	164.0	166.5
12 Automobiles	29.7	21.3	23.7	24.0
3 Baking (1926 Cl.—100)	19.7	18.1	18.8	19.0
3 Business Machines	237.4	209.0	227.8	233.9
2 Bus Lines (1926 Cl.—100)	133.5	118.3	128.3	126.7
5 Chemicals	235.2	212.7	226.0	225.5
3 Coal Mining	19.2	11.2	12.0	12.2
4 Communication	39.4	31.8	34.1	33.9
13 Construction	58.5	47.4	52.1	52.0
7 Containers	284.1	240.7	258.4	260.6
9 Copper & Brass	95.8	67.4	73.4	73.8
2 Dairy Products	60.0	53.3	60.0A	59.6
5 Department Stores	55.1	49.2	54.5	55.1A
6 Drugs & Toilet Articles	154.3	141.6	153.5	150.0
2 Finance Companies	278.4	246.1	270.2	277.9
7 Food Brands	158.1	146.0	155.8	158.1A
2 Food Stores	79.0	58.5	76.0	79.0C
3 Furniture	70.7	54.7	61.4	61.1
3 Gold Mining	733.9	566.3	680.2	675.6

(Nov. 14, 1936, Cl.—100)	High	Low	July 22	July 29
100 HIGH PRICED STOCKS	80.68	70.82	75.89	76.18
100 LOW PRICED STOCKS	146.36	119.71	129.71	130.17
6 Investment Trusts	60.3	53.9	59.1	59.3
3 Liquor (1927 Cl.—100)	688.2	602.9	674.0	682.8
10 Machinery	136.9	115.9	126.2	126.3
3 Mail Order	104.9	87.1	98.0	99.2
3 Meat Packing	79.9	63.3	64.3	66.1
12 Metals, Miscellaneous	158.1	122.0	131.7	129.5
4 Paper	37.3	27.9	31.0	30.7
29 Petroleum	245.7	207.1	227.7	227.7
21 Public Utilities	118.5	102.4	117.8	118.5A
6 Radio (1927 Cl.—100)	26.7	13.6	14.3	14.1
9 Railroad Equipment	50.0	36.5	40.5	40.6
24 Railroads	23.4	17.5	18.3	18.3
3 Realty	25.0	21.4	23.9	25.0A
3 Shipbuilding	144.4	120.0	129.5	129.9
3 Soft Drinks	367.4	298.2	345.9	344.6
14 Steel & Iron	106.2	77.0	84.2	84.1
3 Sugar	48.5	39.8	42.8	42.8
2 Sulphur	283.0	233.8	271.5	283.0C
5 Textiles	132.5	100.9	117.8	117.0
3 Tires & Rubber	31.6	26.6	28.2	28.0
6 Tobacco	77.6	67.1	76.7	77.4
2 Variety Stores	340.3	308.3	338.0	340.3B
17 Unclassified (1948 Cl.—100)	105.3	93.2	100.0	100.7

New HIGH since: A—1948; B—1947; C—1946.

Trend of Commodities

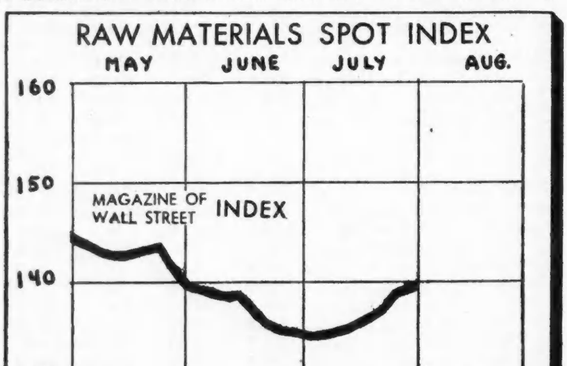
With a few exceptions, both spot and future commodity prices have continued to advance irregularly since our last issue. Loadings of grain during the past fortnight were the largest on record as farmers, reluctant to sell even at current relatively high prices, rush their crops to storage. Only a month ago, grain men were fearing the worst box car and storage shortage in history. Now, with the harvest peak past, a moderate amount of empty elevator space is still available. In mid-July, the southwest had 3,361 box cars in "availability reserve." A year ago scarcely a car was idle. Credit for this pleasant surprise is due partly to crop damage and on-the-ground price-support loans; but first prize goes to the cry of "wolf," which alerted the railroads to the danger and bestirred private interests to provide ample new storage facilities without waiting for the Government to act. And farmers have been paying for the new bins with cash: not Government credit. Some observers find less wheat stored on the ground than in a decade. The C. C. C., however, is going ahead with its plans to construct up to 95 million bushels of additional storage space, saying it will be needed for corn. The Government has begun to subsidize commercial exports of wheat to signers of the international wheat agreement. Farmers will be paid the difference between current market prices and the maximum price of $1.80 provided for in the pact. Agriculture Secretary Brannan has estimated the first year's subsidy cost at $84 million. Private estimates indicate that last year's cotton crop cost our taxpayers around $560 million for ECA exports plus $588 million for the fiber acquired and stored under the support loan program.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices — August, 1939, equals 100

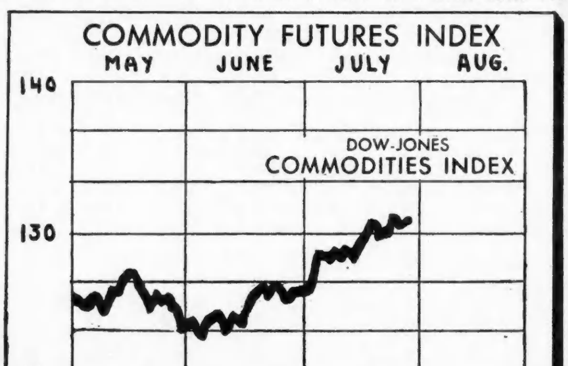
	Date Aug. 1	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	239.0	234.8	229.0	246.1	283.4	321.9	156.9
11 Imported Commodities	241.7	241.4	235.4	250.7	265.1	291.4	157.3
17 Domestic Commodities	237.3	230.6	224.9	243.1	295.0	343.3	156.6
7 Domestic Agriculture	294.9	300.5	292.9	286.9	300.3	358.8	163.9
12 Foodstuffs	295.4	287.7	280.6	282.4	303.4	384.5	169.2
16 Raw Industrials	213.9	212.9	206.7	232.7	286.3	283.0	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0   Dec. 6, 1941—85.0

	1949	1948	1947	1945	1941	1939	1938	1937
High	161.5	162.2	164.0	95.8	85.7	78.3	65.8	93.8
Low	134.9	149.2	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1949	1948	1947	1945	1941	1939	1938	1937
High	139.28	168.63	175.65	106.41	84.60	64.67	54.95	82.44
Low	122.45	139.83	117.14	93.90	55.45	46.59	45.03	52.03

The Motors

(*Continued from page* 482)

results so far reported are on the whole excellent.

At present the industry is still working on a good backlog of unfilled orders, especially in the popular-priced makes where deliveries are still behind, and there is evidence that the lag in the final quarter may not be as severe as expected. However, independents may find they are slowly losing ground as schedules of the Big Three are kept closely geared to orders on dealers' books.

No one can accurately foresee the extent of possible further price reductions in the industry. Much will depend on raw material costs, especially steel, now in good supply, but equally important is the labor factor.

Doubtless, considerable new demand has accumulated, but has not yet been translated into actual orders because of the persistent and firm belief that car prices may be slashed as much as 10% at the factory by next spring when the new selling season will be in full swing or perhaps even late this fall when demand shows signs of tapering off.

More Price Reductions?

The industry, of course, is fully cognizant of this situation and while there is a limit on price reductions when manufacturing costs remain static and when advertising and exploitation budgets must be increased to stimulate volume, it is probable that nearly all car makers will institute sizable cuts if found necessary to turn latent demand into actual business. This will be done even if it means a paring of profit margins.

Although there have been successive reductions in prices over the last twelve months, these have been largely of the experimental variety. On the quicker-selling, popular models the price cuts have been small, perhaps intended to test the market at a time when buyers were still ready to accept almost any car from a manufacturer who could assure immediate delivery.

The next price readjustment in the industry may be of major importance since it no longer is conjecture that the sellers' market has disappeared in all but a few low priced models. This condition, if not already firmly established, will surely be in full control by the end of the current (September) quarter.

Given satisfactory unit volume, even at a level of, say, 10% less than indicated for 1949, passenger car manufacturers can do well from point of earnings, even on lower prices. This is especially true of the Big Three because of the flexibility of their operations at different plants and their superior dealer organization.

While 1950 seems unlikely to be a year equalling either 1949 or 1948 from a profit aspect, results should be favorable enough to suport good dividend payments. Moreover, despite the large production of 1949 and 1948, it is a misconception to assume that the market for passenger cars has been saturated.

Heavy Replacement Demand

First, it should be realized that compared with an average age of automobiles in use of 5.30 years in the 1941 pre-war year, the average age at present is nearer 9 years, or only about 3 years less than what is regarded as the average, useful existence of cars as now constructed. Before the war it is calculated that between 5,000,000 and 5,500,000 cars in use were more than 10 years old, whereas in 1948 between 12,750,000 and 13,000,000 cars were being driven which were assembled more than a decade ago.

The inference from this is that the industry should derive a natural flow of new demand from owners who have been compelled to re-enter the market because their cars no longer were in serviceable condition — had reached the ultimate, or junking point.

Thus, there seems to be plenty of evidence to support the idea that a large buying potential exists and that even if the prevailing level of output and sales is not equalled in either 1950 or 1951, greater emphasis on selling, as in prewar years when buyers controlled the market, plus assurance of price stability will mean enough in the way of sales to keep profits well above the level of 1941.

Growing Competition

Rivalry among all manufacturers will naturally grow keener as buyers take command of the situation in the market for *all models*. But there is nothing concrete on the horizon, except the ever-present labor uncertainties, to justify real bearishness over prospects, especially if this viewpoint is adjusted to the prevailing market level for motor stocks.

Obviously, the recent betterment in market sentiment towards motor stocks, punctuated by new 1949 highs by General Motors, leader of the Big Three, and by Studebaker, now at about the top of the independent list, indicated strongly that the earlier poor performance of the motors had thoroughly discounted the slump in earnings expected in the final quarter and in the early part of 1950.

"Big Three" to Gain

By the end of next year, it is estimated, General Motors, whose percentage of new passenger car registrations in the industry declined to about 40.75% in 1948 will have returned very close to the 47.30% figure of 1941, with a relative gain by Chrysler, but with Ford's participation only slightly altered. Any such progress, necessarily, will have to be made at the expense of independents, all of which is added reason why new commitments in automobile shares should be largely restricted to the important and dominant companies.

Without question, a keenly competitive market in the automobile field is an early prospect, following the expected seasonal drop in pasenger car demand after summer. It doesn't mean that the bottom will drop out of the auto market, far from it; replacement demand alone will assure a continued good level of operations and sales. But for the independents it will mean harder sledding; even the "Big Three" may have to be content with somewhat smaller profit margins. Together with diminishing sales volume in most categories this will eventually mean lower earnings but these should still compare favorably with al but recent abnormally high standards. And a fairly high operating rate in the auto industry will mean an important prop to the economy as a whole, to the steel industry, the accesories makers and the numerous supplying industries which cater to the automobile manufacturers.

Another Look at the Building Shares

(*Continued from page* 480)

has been made is finding reflection in current earnings trends. As a case in point, it may be noted that Johns Manville increased earnings in the first quarter to 97 cents a share from 77 cents in the corresponding period last year notwithstanding a strike in its Quebec asbestos mines which shut off supplies from this source for about half of the three months. Operation of new facilities completed late last year accounted primarily for improvement in the first quarter and apparently helped sustain results in the second three months.

The fact that American Radiator was able to expand sales last year 135 percent over 1939 on a 16 percent enlargement in gross plant account could be attributed partly to benefits of more efficient productive facilities as well as a generally higher price level. U. S. Gypsum has been a recognized leader in production efficiency and has continued to show outstanding progress in holding down costs.

Among the various classifications of products, it may be observed that cement companies appear to be enjoying most satisfactory results. Demand has been sustained on a relatively better level in this division than in most others. This experience may be attributed to the fact that public works projects, which have shown a notable uptrend this year, ordinarily require large quantities of cement. Moreover, non-residential construction, including industrial plants and utilities, has slackened only moderately and work of this type is important in cement consumption. Road construction, too, has shown a tendency to accelerate. In addition, even in residential building, contractors have been substituting cement for lumber wherever possible because it is susceptible to lower labor costs. All in all, the outlook for cement producers remains promising despite an increase in the industry's productive capacity and its traditional vulnerability to keen competition.

Producers of plumbing materials and heating equipment encountered a pronounced drop in orders toward the end of last year and demand remained subnormal through the first quarter of this year, but the readjustment appears to have been largely completed and a normal seasonal pattern probably has been restored. Price competition has shown little evidence of undermining profit margins. Manufacturers have recognized the unlikelihood of obtaining wage reductions with which to bring down costs and have preferred to curtail output when inventories have accumulated to excessive proportions. While margins have been reduced as a consequence of lower volume (and higher unit costs), they have not been seriously impaired.

Orders for roofing materials began to decline sharply about the middle of the fourth quarter last year and remained at exceptionally low levels through the early months of this year, but began to improve noticeably in April and May when distributors' inventories had been thoroughly liquidated. Asphalt and asbestos materials also experienced a readjustment at about the same time, but gypsum sales were maintained on a relatively higher plane until late in the first quarter this year, when this division of the industry felt effects of a slower construction pace.

With seasonal influences again operative, it would be reasonable to expect building materials manufacturers to reach a peak this month and prepare for a lower rate of operations through the remainder of the year. Accordingly, investors soon may be able to judge values of stocks in this industry on basis of more realistic earnings. In other words, the vague element of abnormal profits (as in 1948) so difficult to evaluate is gradually disappearing. As a result, it may be reasonable to suppose that earning power based on productive efficiency may attain a higher market appraisal than in the period since 1946 when investors lacked a dependable measurement for profits induced by boom conditions.

How Strong Are Corporate Finances?

(*Continued from page* 476)

capital needs. All of which explains the drastic and extended drop in business loans by the banking system; business for the time being at least has become largely self-financing.

There are, of course, the usual exceptions, just as the favorable composite picture of industry's capital position shown by the quarterly SEC compilation may not be typical of many corporations particularly affected by price slumps and declining sales. Hence a review of recent shifts in working capital position of individual companies, as shown in the accompanying tabulation, is of interest.

This sampling of twenty corporations show that the current ratio improved in fifteen cases, narrowed in four while in one case there was no change, Net working capital was higher in fourteen instances, lower in five and unchanged in one. Cash holdings rose in ten cases and declined in seven. On the other hand, nine companies showed smaller inventories; eleven showed increases. On the whole, this follows the general trends discussed before. Individual experiences, however, often diverge considerably.

Armour & Co.

Take Armour & Co., for example. Between May 1, 1948, and April 30, 1949, net working capital increased from \$122.1 million to \$148.2 million, but the current ratio widened only modestly from 1.9 to 2.1. The reason is that while current assets rose from \$253 to \$288 million, current liabilities also gained, from \$131 million to \$140.4 million. The company's cash position was materially strengthened, rising from \$20.8 million to \$34.4 million. Receivables rose over \$16 million and inventories about \$7 million. On the liability side, the biggest increase, \$21 million, occurred in notes payable, and there was an \$11 million decrease in tax reserve. The increase in cash and in working capital was not accomplished, however, without a sizable increase in long term debt but part of the proceeds is also reflected in a \$13 million rise in net fixed assets. In other words, both working position and fixed assets have been strengthened through assumption of additional long term debt; as a result, the equity of the common stock has declined somewhat.

International Shoe on May 31 showed little change in net working capital or current ratio from a

year ago, but there has been a fairly substantial rise in inventories, from \$45.9 million to \$54.7 million, and a \$6 million drop in accounts receivable. Cash declined by \$700,000. In other words, while customers liabilities were progressively reduced, inventories accumulated in the wake of lagging sales. With larger inventories and less cash, the relatively narrow shrinking of the current ratio from 4.5 to 4.3 does not fully reflect the lessened liquidity that has occurred.

By way of contrast, the over \$5 million drop in net working capital of Wesson Oil & Snowdrift Co. was almost entirely due to a sharp decline in cash assets. Between May 29, 1948 and May 28, 1949, cash holdings shrank from \$14.4 million to \$7.9 million, and securities holdings of \$3 million were liquidated. Altogether, cash assets shrank some \$9.5 million, receivables were down about \$800,000 and inventories were up nearly \$2 million. Current liabilities declined from \$15 to \$12 million while current assets showed a drop of \$8.5 million. But while the current ratio widened from 3.9 to 4.2, liquidity is certainly not what it was. A year ago, current liabilities were more than 100% covered by cash and government securities; the coverage today is only about 65%. This is still adequate, to be true, but the status of inventories which now constitute about 60% of current assets against less than 50% a year ago, assumes heightened importance particularly from the standpoint of loss vulnerability. An inventory write-down of \$6 million was found necessary earlier this year but the situation now appears pretty well stabilized.

Since the periods covered in our tabulation coincide with a phase during which plant expansion was a common experience, it is not surprising to find that seventeen of the twenty companies sampled showed increases in net property accounts. Only three, however, had a noteworthy increase in long term debt, and only a small handful showed moderately larger capitalizations. But fourteen, nevertheless, showed an increase in total assets.

Generally speaking, a variety of causes have been working toward greater corporate financial strength and liquidity. One was that plant expansion programs had largely been completed last year, permitting greater accumulation of retained earnings in cash accounts. Another was the halt in inventory accumulation, and the mounting trend toward liquidation of excess stocks while at the same time practicing extreme caution in new commitments. This tended to add to cash, and conserve it. Moreover, lower sales and lower prices reduced working capital needs, thus working funds in most cases appear wholly adequate under today's conditions.

But unquestionably there are also those, notably among the smaller organizations, which are feeling the pinch of inadequate working capital. Some may be plagued by top-heavy inventories; the relation of inventories to current assets and sales are today important criteria in judging the position particularly of marginal companies. Then there is the need for streamlining and modernizing organizations for the coming competitive battle; this too costs money and eats into working funds, particularly painfully so when it comes at a time when business is lagging and profits are slender or absent.

Adequate working capital is important not only for healthy survival during recessive periods but for vigorous competition for markets when business is on the upgrade. Viewed from this standpoint, the position of American business and industry as a whole is encouraging. Corporate finances generally are far from strained and liquidity is such that the great majority of companies should be able to weather the recession without dangerous impairment, if any at all, of their financial status.

Will Farm Equipments Continue High Activity?

(*Continued from page* 489)

war improvement programs, though creation of term debts at low rates was a supplementary source of funds. Retention of earnings, along with cash derived from depreciation charges, has gradually expanded working capital of the leading concerns to record proportions. Now that competition is becoming normal again, the battle to hold trade seems bound to bring eased credit terms, and the substantial amount of working capital should prove beneficial in the process. International Harvester Company, for one, has

established a new financing subsidiary with capital of $20 million to handle large scale term credits, mindful that in prewar the major portion of its sales were made on extended terms.

Mention of International Harvester suggests that its operating trends developed since the beginning of its fiscal year ended October 30, 1948, in many respects are characteristic of the entire industry, although the experience of other leading concerns naturally varies somewhat. Volume of the IHC for six months ended April 30, 1949, reached a record high of $482.8 million and net income per share rose to $2.72 compared with $2.02 in the same period of 1948. Increased sales, improved steel supplies and a 10% lift in tractor prices contributed to improved earnings. While sales of trucks declined substantially and dollar shortages hampered export volume, some offset was provided by a sharp rise in refrigeration equipment sales. The company's postwar entry into production of home freezers and refrigerators has proved highly successful, partly due to the rapid expansion of farm electrification. The company's reputation for out-of-doors equipment has been so firmly established that its promotion of home devices has been greatly facilitated, especially as they involve better utilization of farm products.

For the first time in 33 months, however, April sales of International Harvester were below the same period of the previous year. Furthermore it seems probable that this downtrend has continued during May and June. It is quite possible, accordingly, that volume for the fiscal year ending October 31 may not exceed $900 million compared with $945 million in fiscal 1948. The management has cautioned that earnings in the second half year may be somewhat below a year earlier, though larger dividends received from subsidiaries should ease the dip. On the other hand, the cost of introducing an entirely new line of trucks a few months from now will cut into earnings somewhat.

Deere & Company, second largest producer of farm machinery, reported volume of $187 million in the first half of its current fiscal year, or about $40 million higher than a year earielr. Despite prospects that sales may decline slightly in the second half, it is believed that operating margins will be more satisfactory than last year. Deere has won high reputation for efficient cost controls and the greater availability of raw materials should aid in sustaining ample margins, especially as no reduction in prices for finished products seems likely. The company enjoys a strong trade position and its confidence in the future outlook is shown by capital expenditures of around $65 million in 1949. Net earnings for six months ended April 30 showed a marked gain, to $5.11 per share from $2.86 in the comparable 1948 period.

Shares in the farm equipment group generally are selling about 10% below their 1949 highs, partly in line with broad stock market behavior and partly in reflection of reduced farm income and the return of a buyer's market. The strong finances of the leading concerns, however, and widespread conservatism in their dividend policies, suggest that payments to stockholders in the current year will vary little from last year's record.

Pros and Cons of the Electrical Industry

(*Continued from page* 486)

on paper. This includes a considerable amount of duplication, and Congress must supply the necessary funds over a period of years, but nevertheless it illustrates the large amount of work lying ahead for the big electrical companies. If the utilities falter with their program, or if the present recession goes deeper, it seems likely that the Federal Government will step into the breach with a heavy hydro program. Thus the big companies seem assured of good business in heavy equipment for some years to come.

Of the Westinghouse backlog of unfilled orders, which in April was reported to exceed $650 million, about three-quarters represented orders from utility companies, though normally the proportion might be around one-half. In the case of the leaders in the industry, military orders for electric motors and electronics goods also play an important role. Thus, Westinghouse Electric officials have predicted that there would be a large increase in military orders, sufficient perhaps to bring the year's volume close to that of 1948.

The Appliance Situation

But the picture in *electrical appliances* is quite different. Here public purchasing power is the major factor, with large wholesale and retail inventories a temporarily disturbing influence. During the war, the average householder couldn't buy many appliances, and he accumulated a substantial nest-egg of cash earmarked for their purchase. Sales of refrigerators jumped from 264,000 in 1945 to 4,530,000 in 1948; washing machines from 251,000 to 4,317,000, and vacuum cleaners from 258,000 to 3,368,000. In 1941, before wartime restrictions were clamped down, sales of these appliances were respectively 3,552,000, 1,892,000 and 1,734,000 units.

It now looks as though a large part of the 1948 sales by appliance manufacturers were used "to fill up the pipe lines"—i.e. to build up wholesale and retail inventories. Many retailers were overoptimistic, and with a temporary slump in consumer buying now find themselves heavily overstocked with some items. Hence price cutting has ensued with discounts up to 40 or 50%. The process of cleaning house is drastic and should be completed within a few months, but meanwhile the slow-down has "backed up" against the factories. Smaller producers, particularly in washing machines and vacuum cleaners, have had to reduce forces or close factories for several weeks.

Moreover, the industry has been undergoing readjustments to bring out new models and new lines. The great success of television has diverted a great deal of buying from radios and possibly from some other accessories. Completion of new lower-priced models, some without all the accessories contained in earlier units, is also a factor. The public, glutted with bargains and hopeful of still lower prices, has been slow to mop up the surplus. But there is no doubt that public buying power is still large—unemployment has not been heavy enough to make any real dent in it. And expiration of credit curbs should further facilitate consumer buying.

Wholesalers' inventories of electrical goods increased steadily from $110 milion in January 1946 to $667 million in March 1949, declining in the next two months to $607 million. Yet estimated total sales at retail (including radios) have been running only moderately below a year ago in the first five months of this year. Total May sales were $215 milion compared with $224 million in the same month of last year, and $195 million in May 1947. Obviously, then, the troubles of the manufacturers are due more to unwieldy inventories than a real decline in public buying. If allowance be made for price-cutting by retailers, unit sales to the public are probably still making a fair showing, except, of course, that television has cut deeply into radio and phonograph sales.

Retailers' sales may be expected to make a somewhat better showing from now on as drastic price-slashing may have largely run its course. Heavy concessions on distress merchandise appear likely to recede. Nevertheless, it may be some months before retailers will again be ordering in anything like normal volume. Hence present reduced profit margins, lower earnings, and reduced dividends for makers of light appliances appear likely to continue over the balance of the year, with an improved showing next year as inventory adjustments are completed.

The picture is perhaps not quite so clean-cut as indicated above. Shipments of refrigerators have held up better than for washing machines, vacuum cleaners and light accessories. Thus in April, refrigerator shipments were 324,000 against 349,000 last year. In May, 223,000 vacuum cleaners were shipped against 278,000 last year; and only 214,000 washing machines against 363,000 last year. The decline in production of electric appliances other than refrigerators and television has probably ranged between 25% and 50%.

Basis for Long Term Gains

What is the long-term outlook for appliances? Gains will come in three ways: (1) through the increasing proportion of old homes wired for electricity; (2) through new houses being constructed; and (3) through increased use of appliances per home.

The proportion of homes and farms now wired for electricity is much higher than in 1932; there are now over 35 million wired homes and farms compared with 20 million in the year of the big depression. Expansion now must come not so much from wiring of old homes, as from newly constructed houses, apartment buildings, etc. Many houses are now being built on an "all-electric" basis, and the use of radiant electric heaters is a feature of many small new homes. The Government's program to aid housing, recently passed by Congress, will help to maintain residential construction activity at a good level for some years. Growth from these two sources—appliances for old houses to be wired, and from new homes (many all electric) will be supplemented by *increasing saturation in present homes and farms.*

Summarizing, the trend and outlook for the electric equipment industry has been mixed. The backlog of generators and other heavy machinery has remained large, benefitting General Electric, Westinghouse, and some others. Makers of household appliances, especially washing machines, have suffered from an over-expansion of inventories and the resulting substantial drop in orders, price-cutting, etc.

At this writing, it appears that the major portion of the sales slump in appliances has occurred, with a possible pick-up in the offing. In the past, stocks in the electrical group have declined materially more than the general market, reflecting the difficulties which the industry had to face in recent months, and with the earnings trend still downward in most cases, no early improvement in market performance is likely. However, current difficulties appear fairly fully discounted at present market prices.

Motor Accessories Discounted Lower Earnings?

(*Continued from page* 485)

from the automobile industry itself while others concentrating on original equipment probably will have to operate with lower margins than a year ago.

One of the favorable aspects of the outlook that should not be ignored or "played down" is the indication of a continued relatively high rate of passenger car output for a period longer than had seemed probable earlier in the

year. Whereas economists had been looking for a pronounced setback in demand later in the year, now observers are putting off the time when a customer can walk into a sales room and take immediate delivery of one of the popular "low-priced" models. The fact that consumer demand has been sustained at a higher level than forecast by the experts may be traced to these important causes:

(1) Personal income has been maintained at a higher annual rate than generally had been expected with indications that the 1949 rate may not be greatly below that of 1948 in spite of larger unemployment and shorter working hours in many industries.

(2) Rapid deterioration of obsolete models still being used, tending to increase urgency of replacing cars in the 12 to 15-year-old classification, of which the number now in use is exceptionally large.

(3) Increased dependence on automobiles for transportation to and from employment. Dispersal of plants during war to areas not served by traction lines or buses encouraged use of automobiles, and this practice has persisted since the war because of convenience thereby afforded in traveling between factory and home.

Active Demand for Cars

Measured by standards of the past, demand for motor cars has not approached the saturation point. It would be only logical, therefore, to expect consumer interest to remain active so long as purchasing power continues adequate and so long as installment financing facilities are available. Statistics indicate that potential demand for new cars is not excessive in relation to number of old models in use (7 to 10 years or older) or in relation to number of persons gainfully employed. Average selling prices of cars have increased markedly since the war, but are not out of line in relation to average annual wages of factory workers. Moreover, possibility of price reductions and elimination or reduction of excise taxes on new cars would tend to enlarge the market and overcome consumer resistence. The ratio of total installment credit for purchasing motor cars to average annual income has been exceptionally low since the war and could safely be raised without unbalancing normal budgets. On the whole, the increase in use of motor cars is not out of proportion to population growth and sales potentialities remain basically promising.

While the prospect for record production of cars and trucks this year—exceeding the 1929 peak of about 5.4 million vehicles—is one of the favorable factors for accessory makers, it must be admitted that difficulty in lowering labor costs poses a serious problem. Numerous small concerns which prospered before the war because of absence of unionization or because of lower scales than enforced in larger plants now are faced with the necessity of adjusting operations to modern standards or of going out of business. Tendency since beginning of the war has been to apply standard wage scales to large and small companies alike. Moreover, union policy calls for demanding comparable wage rates for workers in parts plants with those in automobile assembly plants notwithstanding the fact that major motor car manufacturers are better able to afford a higher scale. Adjustment of wage disputes in the next year or two is likely to upset earnings calculations on individual companies—as in the recent experience of Bendix Aviation. It is a factor to bear in mind in appraising securities.

Another important factor to keep in view in this industry is the prospect for a shift of consumer preferences for new cars. All indications point to the "Big Three" gaining an increasing share of sales. Registrations suggest that such makes as Kaiser, Frazer, Hudson, Nash, Packard and Willys-Overland have been losing ground. Studebaker business, however, has been well maintained and, in fact, this company's style leadership appears to have accounted for progress at expense of other independents. Accordingly, it would be well to determine the extent of dependency of individual accessory producers on orders from smaller car manufacturers.

Likewise it is to be observed that truck production this year has been running well below levels of 1948, and it is not strange to note that parts makers ordinarily serving truck manufacturers are experiencing less satisfactory results than last year.

On the other hand, a higher rate of production in aircraft in connection with enlarged armament expenditures explains increased volume of business for such companies as Thompson Products, Cleveland Graphite and Bendix Aviation (except for a strike in one of latter's principal plants).

Unlike most other industries reviewed in this series, the accessory parts business defies generalizations. Stocks representing the industry, although not moving in unison, have not fluctuated quite so divergently as have earnings. For the most part, the group tends to move in sympathy with shares of car manufacturers. Investors are beginning to show considerable discrimination in selecting issues in this group with the result that those which give promise of doing well under competitive conditions have shown a better-than-average market performance. As in other industries, earnings and dividend characteristics are important guides to market trends. Because readjustment to normal has proceeded so far in this group, stocks probably are less vulnerable as a whole than in the case of car and truck manufacturers, but once again it is only fair to say that a high degree of selectivity is important in making selections for portfolios. On the whole, the varying profit potentials have been pretty well discounted at current market prices.

Behind the Iron Curtain

(*Continued from page* 471)

management. The hasty nationalization of industries and distributive trades has created a chaotic situation. There are simply not enough competent, reliable managers available. In Czechoslovakia, for example, this lack of competent people has resulted in the reduction of output and productivity in some industries, and in the quality deterioration of some Czech export products, such as glassware, linen and musical instruments. Similarly, land reforms have lowered production standards on farms, though lack of fertilizers and farm equipment have also been factors.

It is not without significance that the greatest progress toward recovery has been made in Poland where, of all satellite countries, private enterprise has been given the greatest leeway. Small manufacturing plants, most of retail trade, and even some contracting firms doing reconstruction work remain privately owned. This may be said about the Poles: They have made the reconstruction of their country their primary objective, and most of them simply do not worry what economic system is being used to accomplish this task. Nationalization, land reform, and social reforms are regarded as secondary. As some observers put it, the Poles "act" like communists because political expediency forces them to do so. But basically they are Poles first, and they want to see their country rebuilt and strong.

Poles Working Hard

The results of hard work can be seen everywhere. The mines and the factories in the Upper Silesian Basin which the Poles hope to transform with the aid of the Czechs into another Ruhr, are working on a 24-hour schedule. Industrial production is about 70 per cent higher than in 1938, and the output of coal, now approaching the annual rate of some 75 million tons, is more than twice that before the war. Warsaw, probably the most devastated large European city four years ago, is rapidly rising from the ashes — or more appropriately from a huge wasteland of rubble. Most of the new city is jerry-built, but there is hustling everywhere, quite in contrast with the new communist Prague or Bucharest. The Polish peasantry is also working hard. The Warsaw Government has a healthy respect for it and land collectivisation plans have apparently been shelved for the time being.

Although there has always been very little love lost between the Poles and the Russians, there is less evidence of dissatisfaction in Poland of "being sold down the river" than in other satellite countries. Perhaps the main reason for this is that the Poles realize that their retention of the so-called "Western Territories" is dependent upon the Russians. These Western Territories are the land detached from Germany; they are the richest part of today's Poland, and without them, postwar recovery would have been much slower.

Poland is probably also the only Eastern European country where the standard of living of workers and farmers has improved since the war. With this, however, communist "reforms" had relatively little to do. During the war the Germans had exploited the country to such an extent that when the war ended, there was only one way the standard of living could go: upward.

Positions of Satellites Differ

Contrary to popular view, there are considerable economic differences between the individual satellite countries. There could be no greater contrast than that between Poland and Czechoslovakia. While in Poland there is plenty of food, and consumer goods such as clothing are quite readily available, Czechoslovakia is a country where there is a shortage of everything, and where food is still strictly rationed. The Czech communists have concentrated on "socialist reforms" rather than reconstruction, and with dire results. About 95 per cent of the country's enterprises have been nationalized, and the remaining 5 per cent are "existing" in fear that they, too, may be nationalized at a moment's notice or without warning. A private enterprise is at the mercy of the nationalized enterprises. It cannot obtain any credit from nationalized banks and it can hope to get raw materials (or goods in the case of retailing establishments) only after all the nationalized enterprises have been taken care of.

In Czechoslovakia, and this is also true of Hungary, Rumania and Bulgaria, it is hardly worthwhile to own anything but the bare necessities of life, perhaps a few pieces of furniture and some clothing. Worst off are perhaps the owners of three- or four-family houses. They are obliged to keep these houses in good repair with their own money, and yet they live in fear that these houses will be taken away from them. Besides, there is little equipment and materials to keep buildings in repair. Whatever is available is monopolized by nationalized contracting firms which take care of the buildings of other nationalized enterprises. As a result, there is no market for real estate and in contrast with Western Europe, the countryside in Eastern Europe is marked by a complete absence of any private building.

The Czech economy is today at its lowest ebb since the end of the war. The great Czech middle-class (not incomparable to the American middle-class), which constituted about one-third of the nation and which, despite all its faults, has been responsible for the past prosperity of the country, is now being ruthlessly liquidated. The country is unhappy and bewildered, and its standard of living, once the highest in central Europe, is rapidly declining.

The situation in Hungary is somewhat better than in Czechoslovakia. To begin with, there is more to eat, and the bulk of Hungary's landless proletariat has its own land to cultivate—until the time is ripe, of course, for the Government to feel strong enough to collectivise it. But this dangerous subject is now relatively little mentioned. The war-built factories have made the country's economy better balanced and today, Hungary is building railway and even automotive equipment. Hungary's communistic Government, of which the extremely able communist leader, Matyas Rakosi, is the central figure, has the situation under better control than its Czech counterpart.

As in Czechoslovakia, labor unions in Hungary have been muzzled. Piece-work and "socialist competition" have become general, and work norms are being raised as fast as they are met. The work-week has been extended to 48 hours and as in Czechoslovakia, so in Hungary, labor unions are known to have been ordered to demonstrate in the streets for "lower pay or a longer work-week without extra-pay," it being below the "dignity" of the workers in a people's democracy to ask "for extra pay for the extra work."

Rumania and Bulgaria are probably under the more direct control of the Kremlin than are the other satellite states. Communization of their economies according to the Russian model has progressed farther, and in some areas the collectivization of land apparently has begun. The reason for this is that both Rumania and Bulgaria lie within the inner belt of the Russian defense system. The other satellite countries are evidently "expendable," if necessary.

What Clues to Watch... for Turning Point in Business

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and coal industris. (3) Growing belief that reflationary Government measures plus deficit financing marks the start of another Administration attempt to fight the recession with inflationary weapons. The latter may yet turn out to become the strongest factor leading to resumption of larger scale inventory buying despite valid doubt whether the Government can succeed in its efforts *until readjustment in basic industries has run its course.*

Doubtless the scene is set for a seasonal improvement in business but we greatly question whether it will be more than a temporary improvement. Rather we anticipate another dip later in the year, and certainly early next year, before a more sustained improvement can materialize. One reason for this belief is that adjustment in basic industries such as steel and capital goods is far from completed; in fact it has hardly begun. And steel is likely the key to what will happen later this fall, contingent upon what happens in such industries as automobiles, farm equipments, construction and heavy machinery. Since the automobile industry is currently the mainstay of steel activity, the extent to which automobile production and demand will slacken will have a decisive bearing on the overall outlook.

Construction, though gratifyingly high now, is bound to fall off seasonally, and the same is likely true of farm equipment output. Capital goods activity will be governed by industry plans for capital investments and while no sharp drop is indicated, there will be some trimming. All of which could make for another decline later in the year, permeated by numerous cross currents. The prospect remains that those industries first to feel the downturn will be turning stronger while others which took longer to get to the buyers' markets and are in various stages of readjustment will have to complete the process. It is difficult to assume, in the circumstances, that a resumption of the business decline is not to be anticipated though further readjustment may be piecemeal, spotty and moderate. Nor can we have firm convictions that the price and inventory adjustments up to now have been adequate to allow currently firming conditions to continue. We may be close to an intermediate stabilization, but more permanent stabilization is still some time off.

Productionwise, non - durable industries have shown the bulk of improvement in recent months while the decline in durable goods has speeded up sharply, living up to its usual recession pattern. The boom peak in the former occurred around mid-1948, in the latter it came in December 1948. The turning point in the production in non - durables usually precedes that in durable goods. If the bottom in non-durables should be reached before the end of this year, as quite possibly it will, the upturn in durables may not be many months behind, but it would mean that a *general* upturn should hardly be expected before the second quarter next year. Interestingly, the production lines of these two major groups, which have crossed in every past recession before the stage was set for a reversal of the general trend, have been getting closer rapidly in recent months. Their further course will be worth watching, for it should furnish a good clue to the timing of the ultimate reversal of the general trend.

The Varying Recession Impact Revealed by Second Quarter Earnings

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important factor. Because of the three-day work week recently dictated by John L. Lewis for "captive" (company - owned) mines, U. S. Steel has been obliged to go into the open market to replenish its insufficient coal supply from its own mines. This adds materially to current costs.

While the company refrained from forecasting the extent of production decline before normal buying develops again, it pointed out that in the second quarter there was a moderate acceleration in the drop of incoming orders and also a further increase in cancellations and deferments. During the June quarter, the order backlog was reduced to about 3½ to 4 months' production potential, a drop of about 25% from what it was at the end of the first quarter.

It is likely that the third quarter will bear the brunt of adjustment. Steel users still have sizable inventories, therefore order sparingly or not at all. But steel stocks are dwindling fast and chances are they will be ready to buy again by October, according to trade estimates. The fourth quarter thus may see a decided improvement over what now appears to become a rather disappointing third quarter.

Building materials companies, in line with the marked seasonal pick-up of construction activity during the late spring and summer, have done fairly well though not matching year-ago figures.

Johns Manville matched first quarter results in the second quarter, both producing per share net of 97c on closely similar volume, but sales as well as earnings were lower than a year ago. Due to the placing into operation of new facilities, the company did better than most others in its field in the first quarter; but results henceforth are likely governed by seasonal influences though earnings should hold up fairly well on the whole.

Certain-teed Products Corporation, manufacturer of asphalt roofing and gypsum products, likewise picked up in the second quarter, reporting net of 64c per share against 50c in the first quarter and $1 a year ago. The profit margin improved some, as volume rose, but with 17.5% it was still below the year-ago figure of 21.7%. In line with often observed experience elsewhere, the earnings drop compared with last year's June quarter was considerably sharper than the decline in sales; the latter fell 20% but per share net was off 36%.

Profits of General Electric fell 32% in the second quarter compared with a year ago, to a total of $19.84 million or 69c a share as against $1.01 earned in the earlier period, and 93c reported for the first quarter. Sales volume of $390 million compared with $411.6 million in the first quarter and $406.8 million in the June quarter of 1948.

Chairman Wilson declared that these decreased earnings resulted principally from reductions in selling prices and from the adverse effect on margins of frequent adjustments made in production schedules in an attempt to maintain a reasonable balance between

output and the erratic but generally reduced demand for certain products—notably appliances and equipment for industrial applications. This effect on margins, coupled with lower volume, was fairly pronounced as our table shows. Second quarter pretax margin was down to 7.8%, from 12.4% in the first quarter and 13% in the second quarter of 1948.

In contrast, Westinghouse Electric improved its earnings during the June quarter. The company reported net sales for the first half of $468 million, a drop of 3% from last year's first half total of $482.8 million, but June quarter sales were up from the March quarter. Per share net for the first half was $2.10 as against $2.02. Since March quarter earnings were reported as 79c a share, this indicates June quarter net of $1.31. Company's order backlog at the end of June was $602.8 compared with $678.9 million a year ago.

General Foods provides a sample of the fairly stable conditions prevailing in the food field. Second quarter volume at $30.2 million was virtually the same as reported for the first quarter; the slight decline in per share net to 87c from 90c was due to a small narrowing of the profit margin from 13.8% to 13.4%. A year ago, sales of $32.4 million at a pretax margin of 14% produced net profits of $1 a share.

The profit decline in the oil industry is about in line with general expectations. Per share earnings of Shell Union Oil receded to $1.20 for the June quarter from $1.59 in the March quarter and $2 a year ago. The June quarter earnings drop occurred on a sales decline of about 6%; the pre-tax margin narrowed from 14.7% to 11.3%. Phillips Petroleum in the first six months earned $3.63 per share, down sharply from the $6.03 netted in the comparable period a year earlier. Since March quarter net was $2.10 per share, June quarter profits were no more than $1.53. The decline in the first half occurred despite a notable increase in gross income, to $244 million from $212 a year ago. Expenses however were sharply higher.

Sharply lower earnings are also indicated for Socony-Vacuum Oil Co. which estimates first half net at about $1.45 a share compared with $2.28 in the comparable year-ago period. But there are also exceptions to the general trend. Barber Oil Co. for the same span reports per share profits of $2.03 vs. $1.60 last year.

Notable exceptions to the general downtrend of earnings are also found among the cement companies where heavy and unceasing demand points to continued prosperous conditions. General Portland Cement shows higher volume and earnings in the June quarter, the latter amounting to $1.38 a share compared with $1.13 in the March quarter and $1.04 in the June quarter last year. Penn-Dixie Cement had a smart recovery from lower March quarter results when sales were down to $3.1 million and net earnings to 59c a share. In the June quarter, volume had risen to $4.8 million and per share net to $1.24, with the pretax margin rising from 16.3% to 25%.

Sulphur producers also did well. Texas Gulf Sulphur earned $1.97 a share on June quarter volume of $16.3 million; in the March quarter, sales totalled $14.9 million and share profits came to $1.90. Both these groups, cement and sulphur, are likely to show continued above average results.

As can be seen from the samples discussed in the foregoing, and others shown in our tabulation, the widely varying earnings trends afford an excellent clue as to the impact of readjustment on different industries. From an investor standpoint, it will therefore be a rewarding task to watch earnings and dividend trends closely. As previously stated, dividends as a whole have held up much better than earnings, reflecting not only ample dividend coverage in many cases despite reduced profits, but probably also confidence of managements in the future outlook.

As I See It!

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their Government and its policies is really able and likely to restore their economic health and independence, whether the aim, outlook and emphasis of the Laborites are best suited to safeguard the people's standard of living and restore the nation's self-reliance. On the record, such ability appears more than doubtful, and the doubters — even in Britain — are steadily gaining in number. The fall of British Government bonds attests to that.

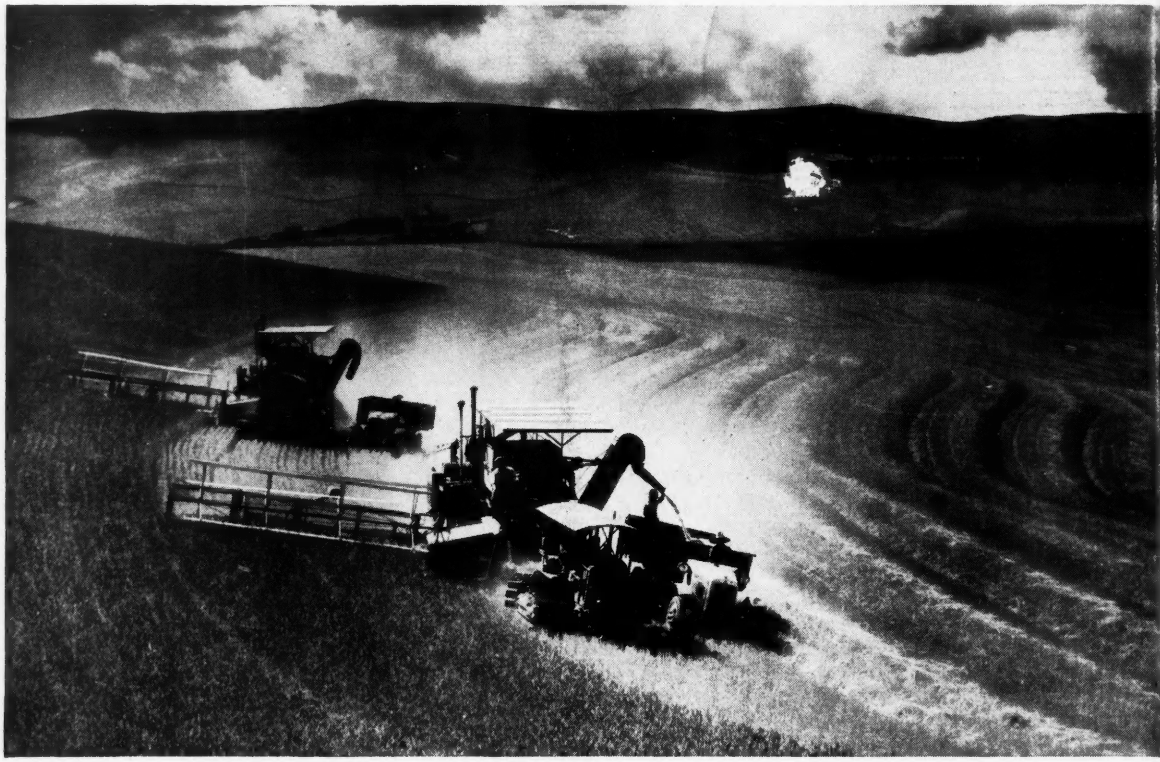
What's Behind the Market Rise?

(*Continued from page* 463)

that seen in recent months can be ruled out for some extended time to come. If there is a chance for such a conviction to develop at all, it is hard to see how it could come about without considerably more supporting evidence than is available at present. It would be prudent to figure that the current rebound in business merely delays the adjustments needed to put the economy on a sound footing; and that, therefore, the final low in business might come later in 1950.

Aside from all this, the present Administration, committed to huge spending program indefinitely, will surely be pressing for higher corporate taxes and higher income taxes on the middle classes and the well-to-do whenever it thinks business conditions are good enough to permit; and for all practical purposes, except actual shooting, our country is at war with Communist Russia. There is nothing imaginary about these sobering imponderables. As a result of them it may be that "normal" price-earnings ratios have to be considerably lower, and "normal" dividend yields considerably higher, than they were before the war. If so, fairly moderate limits are set on market upswings. On the other hand, the solidity of the market's June low must still face a future test.

On the reasoning cited in this discussion, there is no change in our conservative policy. Do not extend your equity holdings. Maintain substantial reserves for future buying opportunities.—Monday, August 8.



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